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The Neo-Liberal Revolution

Forging the Market State

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The Neo-Liberal Revolution

Forging the Market State

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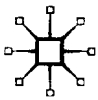

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Contents

Preface vii

Acknowledgements viii

Notes on Contributors ix

Introduction xii
Richard Robison

Part I Neo-liberalism and the Market State: Concepts and Issues

1 Neo-liberalism and the Market State: What is the Ideal Shell? 3
Richard Robison

2 Two Faces of Neo-liberalism 20
Andrew Gamble

Part II Neo-liberalism and its Global Transit

3 The Politics of Neo-liberalism in Latin America: Legitimacy, Depoliticization and Technocratic Rule in Chile 39
Patricio Silva

4 Neo-liberalism in the Russian Federation 58
Hans Oversloot

5 Corruption and Neo-liberal Reform: Markets and Predatory Power in Indonesia and Southeast Asia 79
Vedi R. Hadiz

6 Neo-liberalism and the Persistence of Clientelism in Africa 98
Graham Harrison

7 Serving the Market or Serving the Party: Neo-liberalism in China 114
Shaun Breslin

Part III Conflict within the Neo-liberal Camp

8 The Wall Street–Treasury–IMF Complex after Asia: Neo-liberalism in Decline? 135
Ben Thirkell-White

9 What's in a Name? Neo-conservative Ideology, Neo-liberalism and Globalization 156
A. Haroon Akram-Lodhi

10 Mr Bush and Neo-liberalism 173
William K. Tabb

Part IV The Neo-liberal Future

11 Neo-liberalism and Transparency: Political versus Economic Liberalism 197
Garry Rodan

12 European Social Democracy and the Neo-liberal Global Agenda: a Resurgent Influence or Capitulation? 216
Wil Hout

13 Economic Constitutionalism, Liberalism and the New Welfare Governance 234
Kanishka Jayasuriya

Bibliography 254

Index 282

Preface

It is the intention of this volume to provide a comprehensive insight into the phenomenon of neo-liberalism; that shifting amalgam of ideas about markets, social order and political power that now constitutes nothing less than the defining movement of the age. It is addressed, at one level, at extending those ideas of neo-liberalism that go beyond the caricature of 'market fundamentalism', to a concept of a larger social and political agenda for revolutionary change. It examines, specifically, those political and ideological tensions and fragile and highly contingent alliances that are constantly driving and reshaping its advance across the world. At another level, authors from Europe, North America, Latin America, Asia and Australia place these 'hydra-headed' struggles into the context of the concrete hijackings and conflicts that are accompanying the neo-liberal transit across the globe. These include studies of its collisions with various populist and clientist regimes in Africa and Latin America, and with highly organized administrative states in Southeast Asia as well as the volatile processes of 'shock therapy' that have framed its entry into Russia or Indonesia and its strange engagement with the Chinese party-state. These fusions constitute the special feature of this volume, together with the emphasis placed on the future neo-liberal world, not least the seeming paradoxes of markets and highly illiberal forms of political and social authority.

RICHARD ROBISON
The Hague, 26 June 2005

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Introduction

Richard Robison

It is now more than three decades since those ideas and prescriptions for the organization and reform of economic and social life now generally known as neo-liberalism began to emerge as the defining policy orthodoxy of the age.[1] In that period, agendas, for economic deregulation, the retreat of the state, the dismantling of the public sphere and the ascendancy of the private interest, have become the currency of a reform process that has appeared inexorable. Although this process has been uneven and sometimes bitterly contested, the continuing retreat of the welfare state in Europe and in America, the dramatic collapse of the Soviet Union and the more recent Asian economic crisis has appeared to confirm that, in the broader scheme of things, attempts to bypass the assumed natural efficiencies of the market, either through the distributive arrangements of social democracy, the centralized co-ordination of the developmental state, or through the predatory rent-seeking of crony capitalism, are options now outmoded in a world of global markets.

Yet, even as the advance of markets and the consolidation of the private interest gather pace, there has been growing frustration within the neo-liberal camp because the deepening of market reform has appeared in important instances to offer new opportunities for populist oligarchies and political cronyism or the consolidation of various forms of illiberal politics. The task of unleashing the market has proven to be much easier than that of building the systems of social and political governance within which markets may be regulated and protected from what neo-liberals regard as the vagaries and uncertainties of politics. Forging the market state has now become the central problem for neo-liberals, not only in developing or post-crisis economies but within the very heartlands of modern market capitalism, in America and Britain where neo-liberals not only confront the tasks of protecting the market principles from those powerful interests who have been its primary beneficiaries but that of disciplining a society now increasingly disorganised by the market.

In Part I of this collection, it is argued, in chapters by Robison and Gamble, that the seeming paradoxes of the neo-liberal advance are not least the product of the 'hydra-headed' nature of neo-liberalism itself

and the highly contingent nature of those political and social alliances that are mobilized around its agenda, pulling, on the one hand, towards an abstracted techno-managerial system of authority and, on the other, towards a more instrumental harnessing of the market state to serve various institutional or private interests. At a more abstracted level, as Gamble argues in his chapter, the laissez-faire concern with liberating the magic of the market sits uncomfortably with a 'social market' strand within neo-liberalism; the Hobbesian realization that the exercise of state power is required both to 'roll back' the opponents of markets and to provide the general conditions and common goods that enable markets to function and that will contain their self-destructive tendencies.

The second part of this collection examines the global advance of neo-liberalism and how market reforms and the retreat of the public realm are being harnessed within varying systems of social and political governance across the developing and post-crisis world. In their respective chapters, Silva, Oversloot, Hadiz, Harrison and Breslin explain, for example, how a classical neo-liberal transition was achieved in Chile in contrast to the almost universal emergence of populist varieties of market state elsewhere in Latin America or why the advance of markets has been expropriated to consolidate and deepen systems of clientism and predatory authority in much of Africa. They ask why market reform in Russia unleashed such a period of 'savage capitalism' and how this has led a resurgent state to seize the market agenda whereas, for example, a similar descent into unconstrained markets in Indonesia led to the collapse of centralized authoritarian rule and the prospect of progressively unravelling forms of populist and even predatory governance.

The central concerns of these chapters are not the technical aspects of institutional capacity-building or 'political will' that are central to neo-liberal interpretations but how market states are forged in conflicts between, on the one hand, the new sources of private power and interest produced by the market and, on the other, those powerful forces set within the institutions and apparatus of the state. How, for example, has the market system been incubated so successfully within different systems of one party rule in such diverse places as China and Singapore and do these insulated political regimes, ironically, provide an ideal shell for the anti-politics of neo-liberalism rather than situations where powerful social forces command autonomy and ascendancy over the state?

As mentioned earlier, neo-liberal orthodoxy also confronts challenges within its own camp and the implications of these for the evolution of the market state are examined in the third part of the study. Thirkell-White considers the new internal politics of neo-liberalism that

accompanied revisionist attacks on the so-called 'market fundamentalism' of the Washington Consensus and its central institutions, especially the IMF, and whether these signal a retreat to more Keynesian and social democratic ideals of the past. At the same time, Tabb and Akram-Lodi examine how neo-liberal 'true believers' face a seeming drift to populism and cronyism from a Bush administration more assertive in its use of state power to advance powerful business interests, together with the threat of a neo-conservative juggernaut increasingly convinced that the fate of global markets is tied closely to the preservation of a wider political and military American hegemony in an increasingly hostile world.[2]

One of the contentious points addressed in these chapters is whether such dramatic confrontations represent shifts in power within the neo-liberal camp or whether they reflect a more structural challenge to the neo-liberal order. Whether, in the first case, a sort of Polanyian double movement now requires a retreat from the potential destructiveness of unconstrained market fundamentalism and, in the second, whether an increasingly fragile 'American primacy' requires ever-more intrusive state authority in both the domestic and global arenas? Does the neo-conservative agenda imply a threat to neo-liberalism, embracing budget deficits to undo progressive tax regimes or support war efforts or is this simply a third stage in the broader neo-liberal project, moving from market reform and institution building to the more political task of removing or reconstructing those very forces that might enhance or obstruct those interests now ascendant within the market state?

The final part of the study speculates upon the future neo-liberal world and the forms of governance within which its advance may be framed. While the deeper attachments of contemporary neo-liberalism towards various modes of insulated techno-managerial authority to protect the market from politics are recognised and drawn out by Rodan, the emerging strand of 'social market' thinking within neo-liberalism nevertheless takes seriously the task of incorporating and co-opting society into this grand market project. Yet, in his chapter, Hout argues that even the dramatic assaults on 'market fundamentalism' embodied in the post-Washington Consensus provides little prospect of any reassertion of social democratic influence on new development agendas brokered by European governments. Instead, as proposed by Jayasuriya in the final chapter, neo-liberals attempt to construct their brave new world; the 'social market', within a combination of insulated regulatory rule and populist forms of social contracts that by pass representative principles in favour of organic and functional processes of social co-option.

Notes

1 The complex and often internally inconsistent nature of neo-liberalism is explicitly addressed in most of the chapters in this collection. For some specific attempts at defining neo-liberalism see: Bourdieu (1998) Peters (2004) Treanor (2004).
2 An interesting survey of the basis of neo-conservatism from a neo-conservative viewpoint is that of Boot, 2004. Among surveys of its rise to political prominence in Washington is that of Fidler and Baker, 2003. Recent critical investigations of the definition and nature of neo-conservatism include Tabb and Akram-Lodi (this volume).

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Part I

Neo-liberalism and the Market State: Concepts and Issues

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1

Neo-liberalism and the Market State: What is the Ideal Shell?

Richard Robison[1]

What sort of market state do neo-liberals want? Lenin once remarked that democracy was the ideal shell for capitalism (see Jessop 1983). But he was referring to the sort of propertied democracy emerging in the nineteenth century and to the task of dismantling various forms of absolutist mercantilism that confronted the rising bourgeoisies of Europe. However, the situation has been different for neo-liberals struggling to assert their ascendancy over the mass-based social democracies of the second part of the twentieth century. Neo-liberals like James Dorn of the Cato Institute now see democracies as potential threats to liberalism, incubators for the tyranny of a rent-seeking majority over the private interest. He noted that 'Democratic government is no substitute for the free market …' (1993: 601). Thus, for neo-liberal 'true believers', the ideal market state was one that essentially guaranteed individual property rights and contracts, and that might not be a democratic state.[2] As we shall see, it was a vision in which the desire to dismantle the state sat uneasily with the perceived need to create an insulated system of techno-managerial governance that would protect the market from politics and possessed the authority to redefine society in terms of an ongoing series of highly functional voluntary transactions between rational individuals.

Protecting the market from politics

Neo-liberalism, ideology and the techno-managerial state

The rise of neo-liberalism began in the 1970s as inflation, unemployment and corporate failures were engulfing the advanced western industrial economies. Free market champions like Reagan and Thatcher were able

to seize power because policies of deregulation, privatization, low taxes and appeals to individual self-reliance proposed a way out of the downward spiral of welfare capitalism and protected industrialism that now seemed unsustainable in the newly unfolding global system. But neo-liberalism was to be more than just a reincarnation of laissez-faire sentiment or a simple neo-classical attachment to the idea of the inherent efficiency of markets. It aimed at nothing less than extending the values and relations of markets into a model for the broader organization of politics and society. Neo-liberals recognised the political nature of a task that included dismantling entrenched systems of welfare and developmental capitalism characterized by powerful labour unions and welfare coalitions. Yet, in approaching this task, they were confronted with the dilemma, as Gamble notes later in this volume, that neither society nor the state could be trusted.

Whereas classical liberals had assumed the self-reliant and progressive nature of civil society, and business in particular, to be driving forces in the formation of market societies, neo-liberal political economists of the public choice school took a much harsher line. After all, they argued, why would self-interested individuals forgo the opportunity to secure advantages in rents and free-riding to build the systems of general rules and rights necessary to address collective action dilemmas (Buchanan and Tullock 1962; Olson 1982). While, as Douglass North concluded, it might have seemed logical that only the state was potentially positioned to supply such institutions (North 1981), he also proposed that the state was no less immune from the self-seeking and predatory impulses that governed individuals. As both Grindle (1991) and Evans (1995) have noted, public choice theory replaced the benign state of liberal pluralism with a state conceived as little more that a collection of self-interested individuals exchanging political favours for support from rent-seeking distributional coalitions and diverting resources from productive investment.

The problem required nothing less than limiting the predatory capacities of the state by policies of fiscal austerity, privatization and deregulation that would drive it from the economic sphere and thus eliminate the very basis of rents. Yet, as we shall see, it was only through the state that neo-liberals, ironically, gained the foothold that enabled them to enforce their policies. Thatcher and Reagan enforced the dramatic reforms that transformed Britain and the US in the 1970s and 1980s through the considerable apparatus of state power and authority now under their control. For many practical neo-liberal reformers now concerned with the problems of development, hopes for the consolidation of reform lay in the hands of rational 'technopols' able to impose the

public welfare (represented by markets) over the demands of vested interest (Srinivasan 1985: 58; Lal 1983: 33; Williamson 1994).

Thus we find the emergence of a neo-liberal institutionalism focused around the 'new public management' and efforts to enshrine the primacy of markets and property rights in constitutional arrangements that insulate technocratic decision making from the uncertainties of representative politics, replacing politics with governance in what critics call 'low intensity democracy' (Gills and Rocamora 1992) or what Jayasuriya (2000) has termed 'liberal authoritarianism'. It may be argued that a place like Singapore that features so prominently in neo-liberal 'freedom indexes' presents to western neo-liberals a highly satisfactory vision of a future where markets may flourish under technocratic regimes unencumbered by politically powerful distributional coalitions (Rodan 2001 and this volume). Quite apart from the Cold War considerations of the time, the long and close collaborations with leaders like Soeharto or Pinochet also illustrate the attractions for neo-liberals of powerful, insulated states that are able to bulldoze opponents out of the way.

Neo-liberalism, populism and social contracts

There is nevertheless a growing recognition within the neo-liberal camp that the market state requires a broad legitimacy across society and at least some measure of support and engagement from popular social forces. Political leaders in Latin America had long understood that embarking on the dangerous course of introducing of neo-liberal reforms required support that could be mobilized through populist policies and social contracts with various popular forces, including labour. Such populist social contracts could also serve as opportunistic moves to outflank conservatives in the military or the state apparatus or social democratic remnants in the parliament (Weyland 2002, 2003), or, alternatively, as measures to sustain a pro-business party in the face of pressures for further market reforms as in the case of Thailand under Prime Minister Thaksin (Hewison 2005).

However, the neo-liberal interest in creating a new form of social governance goes beyond the problem of neutralizing opposition to reform. It aims at nothing less than what is described by Jayasuriya (this volume) as a 'neo-liberal sociability' or a system of 'social neo-liberalism' (Cerny 2004) that redefines citizenship in terms of the right to participate in the market and equality as access to the market rather than redistribution of income. This social neo-liberalism has been a defining characteristic of various third way governments in the West like Tony Blair's New Labour in Britain or John Howard's administration in Australia

where the focus has been on a reorganization of social welfare and public spending rather than their elimination. Its attempted incorporation into the broader development agenda has revealed the deep divisions between those who believed that market liberalization in itself would be the primary engine of change (Summers 2001; Dorn 1997; Williamson 2004) and those who were now convinced of the need to make an assault on 'market fundamentalism' and more directly to establish the social and institutional prerequisites for market transitions (Stiglitz 1998b).

In the 1990s the language of social sector participation, ownership and empowerment became the new mantras of the World Bank and other development agencies. With the task of development defined in terms of equipping social groups for inclusion in market society and making them capable of surviving in a market economy, the idea of social capital became an indispensable organizing concept. It enabled the development project to be redefined in terms of poverty reduction strategies requiring the construction of dense social networks, skills, values and norms – thus avoiding any entanglement with issues related to concentrations of power and wealth in society. In terms of the structural functionalism of the 1960s, from which social capital largely derives its functional and organic ideas, resentful or marginalized populations may be conceived as simply dysfunctional and must be made functional. This gave rise to the huge industry in governance, capacity building, training and social inclusion projects now run by the World Bank and other development agencies (Fine *et al*. 2003; Harriss 2002).

The problems of transplanting the neo-liberal market state

Why has it proven so difficult to construct these neo-liberal models of market state and society, particularly outside the so-called Anglo-Saxon economies of US, Britain, Australia and New Zealand – or, as Silva argues in this volume, apart from the extraordinary example of social disorganization and political disengagement that has characterized the Chilean experience? After all, there is a certain inexorable logic in the 'machine' of the market exemplified in Friedman's (1997) leaderless herd of currency dealers and equity managers, dictating the price of entry into global capital markets and punishing those who transgress its rules. How have different alliances of social and state power been able to deepen their engagement with global markets while retaining or developing highly illiberal or populist systems of state authority even where the discipline of global markets or severe economic crises should have weakened their resolve and capacity to defend interventionist, predatory or populist arrangements?

Hijacking neo-liberalism

One of the central instruments for extending neo-liberal reform into developing and post-crisis economies has been that corps of professional economists and bureaucrats working within key economic and financial ministries and agencies. Chile's famous 'Los Chicago Boys' in the 1970s had their equivalents in the so-called 'Berkeley Mafia' who, almost a decade earlier, had begun to play a central policy role in Soeharto's Indonesia. In Russia, technocrats like Anatoly Chubais initiated decisive privatization programmes during the Yeltsin period of the early 1990s. In the case of Iraq, a military invasion by the US created an almost *tabula rasa* for the introduction of market-based economic policies by the Head of the Coalition Provisional Authority, L. Paul Bremer (the ultimate technocratic authority), that included provisions that are the dreams of neo-liberals in America itself, among them a flat tax-rate of 15 percent (Peck 2004: 392).

Yet, as recognised by the World Bank itself, only in specific circumstances have neo-liberal technocrats been able to impose reforms that extended beyond macroeconomic policy into the arena of institutional or political change (World Bank 2003a: 107–17). Some attribute this problem to the incomplete or selective nature of the reforms or their improper sequencing (Dollar and Kraay 1999, 2000). Elsewhere, it is considered a consequence of the poor training of officials or the weakness of institutions and the lack of institutional capacity. On the contrary, it is proposed in this volume that the design or sequencing of reforms is not simply a technical decision but rather is constrained by political possibilities. Attempts to engage in what Jayasuriya (in this volume) calls 'new forms of statecraft' to establish a neo-liberal regulatory governance have proven to be difficult not because of technical difficulties or intransigent opposition to markets but because those allies mobilized behind the neo-liberal agenda or even created in the process of rolling back the old economic regimes construct quite different forms of political and social governance to accommodate markets to their own social interest. Therefore, the task is to explain the pathology of these dynamics and how they are shaped by shifts in the architecture of state–society power relations.

Clearly the most dramatic neo-liberal intervention in recent years has been in Russia where reform was introduced through a programme of so-called 'shock therapy' delivered to a decaying totalitarian regime and where no established bourgeoisie existed to assume the primary role of investor, previously the preserve of the state. That a new business

oligarchy was created only by means of an arbitrary handover of state assets to well-placed individuals and where political deals, gangsterism and violence were often the currency of state–business relations, led analysts such as Holstrom and Smith (2000) to regard this process as nothing less than a period of unconstrained 'primitive accumulation' essential to the early stages of capitalist development. But is there not a tipping point to all of this? After all, the rise of capitalism in both Britain and America were characterized by extended periods of unconstrained, robber baron capitalism. The question is: how does the regulatory market state emerge from 'savage capitalism'?

Neo-liberal advocates of 'shock therapy' propose that opening the market is in itself enough to set wider processes of reform in train and that few institutional prerequisites are needed beyond some basic property rights (Rapaczynski 1996; Sachs 1991). Anatoly Chubais, the architect of the 1990s shares for loans privatization that opened the door for the emergence of Russia's oligarchy, claims that despite the chaos, corruption and inequity that accompanied it, not only was 'shock therapy' the only possible way of creating private property but the oligarchs themselves will increasingly tire of arbitrary authority and see that moving on to the next stage requires a system based on rules that ensure their general interests (cited in Ostrovsky 2003, 2004).

Indeed, Marxists have also argued that the internal maturing of capitalism and the increasing interest of business in an orderly system of rules and open markets will ultimately ensure transition to a more generalized and regulated system of capitalism (Harris 1989). Yet the emerging market state in Russia is being decided, not by the demands of the oligarchs to end the era of arbitrary capitalism but as that vast apparatus of state power reconstituted under President Putin seeks to recapture the agenda of change from the oligarchs and their neo-liberal allies (illustrated in the struggle with the head of the Yukos oil giant, Mikhail Khodorkovsky), not to roll back the market but to define the new market state in the terms of its own complex interests.

Expectations that neo-liberal patrimonialism would evaporate as liberalization proceeds has also pervaded neo-liberal assumptions about Africa. However, as Harrison observes in this volume, the advance of the market has in fact created 'a new political class' that reproduces itself through 'neo-liberal clientism' and that this class in fact expropriates the state itself. No 'relatively autonomous' state apparatus appears on the horizon to put an end to this ongoing and self-destructive logic of disorganized and predatory capitalism. The same problems of disorganized capitalism are addressed elsewhere by Hutchcroft (1998: 45–64)

who proposes that the collision of 'modern rational capitalism' with systems of patrimonial oligarchy that have prevailed in Latin America or the Philippines, where powerful business or landed oligarchies determined the flow of rents from a largely incoherent bureaucracy are different from those collisions with systems of administrative oligarchy, broadly characteristic of Indonesia, Thailand and Malaysia, where power resided, at least in the early stages, with a class of office holders who are the main beneficiaries of rents extracted from a politically disorganized business class.

While systems of patrimonial oligarchy, where private interests enjoy an ascendancy over the state, might seem to provide a more benign environment for markets, Hutchcroft proposes that economic growth in these circumstances simply reinforces the power of oligarchy where the patrimonial state systems lack the capacity to impose regulatory reform. Indeed, it is this embedded system of clientist populism that is cited by various analysts to explain the repeated collapse of neo-liberal reform projects that have plagued the Philippines and Latin America. The relative success of Chile's experiment with neo-liberal reform is explained, including by Silva in this volume (and see also Weyland 2003; Schamis 2002), partly because, in its transition to neo-liberal capitalism, Chile represented a unique alliance between an authoritarian state and a developed business and middle class for whom open and competitive markets and the provision of general rules for the regulation of business now suited uniquely their common institutional and economic interests.

On the other hand, Hutchcroft proposes not only that the administrative patrimonial state possesses the capacity to manage and impose reform but that private sector interests nurtured within them are more likely to tire of the uncertainties of rents and see their interests increasingly in markets defined by general systems of rules and regulation (p. 48). This model is ideally illustrated in the case of Soeharto's Indonesia, whose rise in 1965 and 1966 was widely seen by neo-liberal economists and western observers as a triumph of rationality over politics (Arndt 1967). However, despite the new prominence of western-trained technocrats, construction of the new market state lay in the hands of a military embedded not only within a pervasive apparatus of security and repression but in a vast network of state-owned enterprises and ministries that controlled the commanding heights of the economy. While the monetary and fiscal prescriptions of the reformers were welcomed, the inflow of aid, loans and investment as well as growing oil revenues were used to consolidate state capitalism and the ideology of

technocratic development provided legitimacy for a centralized system of unaccountable authoritarian rule (Moertopo 1973).

Nevertheless, the new phase of deregulation and market reforms that began in Indonesia in the early 1980s could be seen as evidence that the patrimonial administrative state could respond to crises – in this case the collapse of oil prices and the need to generate new sources of state revenues and foreign earnings – by enforcing reform. A more compelling factor, however, was the incubation, over the previous decade, of private business interests within various state-sponsored monopolies that linked large Indonesian Chinese business groups with the families of powerful politicians and officials, notably the Soeharto family itself. For these interests, the state that had nurtured their growth now became a constraint. State monopolies in media, banking and public utilities promised lucrative opportunities for the next stage of their development. In other words, the reforms of the 1980s and 1990s signalled a takeover of state capitalism by this politico-business oligarchy. But this was far from the expected rise of private interest increasingly tired of arbitrary authority and seeking orderly markets.

A strange mixture of authoritarian rule and clientist politics was thus established, preserving domestic trading and manufacturing cartels while opening for favoured investors a finance sector unconstrained by rules about intra-group lending and capital adequacy ratios and where no distinction existed between lenders and borrowers. Public monopolies were transformed into private monopolies while key state enterprises became the conduits through which state funds haemorrhaged into private hands by subsidizing the costs of their activities and providing discretionary credit (Schwarz 1999; Rosser 2002; Robison and Hadiz 2004).

However, the Asian economic crisis and the disaster visited upon the Indonesian cronies and their counterparts elsewhere confirmed in the minds of many neo-liberals that cronyism inevitably ended in tears and that Asia was now poised on the edge of a convergence that would embrace the natural efficiency of markets (Camdessus 1997; Greenspan, cited in Hamilton 1999). Yet, although the Asian economic crisis delivered enormous power into the hands of the IMF to enforce a range of policy and institutional reforms, especially in Indonesia, Thailand and South Korea, existing regimes proved able to reconstruct market states that preserved entrenched interests and largely disappointed neo-liberal reformers.

For example, in the depths of the crisis, the Malaysian government responded by fixing its exchange rates and backing this with huge

injections of state funds into banks and the stock exchange, thus rescuing many of the indebted corporate oligarchs. As Case (2005) notes, the drive to enforce neo-liberal reforms in the wake of the crisis continued balanced with attempts to preserve the position of privileged oligarchies. In the Thai case, business interests that survived or emerged as major players from the rubble of the crisis decided that their survival depended upon putting the neo-liberal reform agenda on hold while they consolidated their economic position. As power fell more directly into the hands of business through the Thai Rak Thai Party of the new prime minister, Thaksin, various protective policies were put in place to stem the flow of external corporate takeovers and the pace of privatizations and corporate reform. The political ascendancy of business was consolidated in an increasingly centralized systems of money politics where a new social contract to draft broad political support included highly populist measures for health insurance and village-level grants (Hewison 2005; Jayasuriya and Hewison 2004).

In the case of Indonesia, entrenched politico-business coalitions were able to reorganize their power even with the collapse of the centralized authoritarian rule that had guaranteed their position for so long. The World Bank (2000: 43) lamented the isolation of technocrat reformers and their powerlessness to prosecute the intensive reform programme in the face of vested interests. With the help of an entrenched and corrupt judiciary and an intransigent bureaucracy, technically bankrupted business groups held onto their key assets by stalling foreign creditors or by warehousing their debt with the government agencies responsible for the recapitalization of banks, effectively socializing the costs of their losses (Hamilton-Hart 2002; Robison and Hadiz 2004: 187–222). Significantly, as Vedi Hadiz argues (2004; and in this volume), democratic reform and decentralization appear simply to have reproduced the same systems of business – state relations, albeit across a wider range of alliances, within the arena of party and parliamentary politics and down into the provinces and subprovinces.

What then are the lessons for neo-liberals? The most important one is the fact that markets can survive and even flourish within a range of institutional frameworks and that institutions themselves are ultimately about power and its distribution. While economic crises and the advance of the market may reshape the political and social landscape, at the same time existing or evolving amalgams of power and interest in turn impose their own agendas on the emerging market state. The neo-liberal agenda may be achieved within seemingly unlikely forms of market state. For example, the sort of 'market sociability' discussed earlier,

as observed by Jayasuriya and Hewison (2004), may be best achieved in the reformist populism of Lula in Brazil or Thaksin in Thailand. Authoritarian systems, such as those in China or Singapore, potentially provide the ideal 'authoritarian liberalism' or 'low intensity democracy' essential to insulated techno-managerial rule.

Ironically, hybrid market states are also sustained by global investors and international development agencies. Authoritarian market states, uncontaminated by the demands of welfare or environmental coalitions and labour organizations, potentially offer business much of what it is unable to secure in the slowly unravelling social democracies of America or Europe. In this sense, they represent, ironically, much of the essence of the neo-liberal market state. New and highly mobile global financial markets have also been willing to invest heavily even where there is clear evidence that corruption, collusion and state-sponsored monopoly rather than the free operation of the market is a key determinant of business success. This was a feature of the huge flows into an increasingly speculative Asian market in the years preceding the economic crisis and of the subsequent rapid return of international investment to many of the affected countries. So long as the rewards are high and governments are presumed able to guarantee seemingly speculative ventures and their property rights, there are few qualms about the absence of level playing fields. As Hadiz observes in this volume, such regimes have also been championed by institutions like the World Bank for whom pervasive corruption was often glossed over where close ties to technocrats induced an ongoing 'group think'. Conversely, in the African case, it has been inflows of aid that have provided important underpinnings for the survival and entrenchment of patrimonial elites such as those described by Harrison (see also Walle 2001).

Fractures within the neo-liberal camp: the eclipse of the 'true believers'?

The conflicts to define the new market state have been no less intense in the US throughout the 1990s where the views of neo-liberal 'true believers' were challenged in ongoing political and ideological ruptures as powerful politico-business interests now influential within the Bush administration supported the vision of a market state where business interests might override the pristine ideals of markets. At the same time, neo-liberal orthodoxy faces a neo-conservative agenda that conflates markets with a global American hegemony in broader political and security terms, replacing the neo-liberal idea of globalization as a abstracted

process of competition and efficiency with one that relies upon the political and military reinforcement of American interests and establishes the ground for an extensive security state.

The rich versus the markets

It was a central feature of the neo-liberal revolution in the 1970s that the weight of power and influence in business within America shifted from the old manufacturers of the Northeast to new sectors of capital that operated more specifically in the global arena, specifically in the finance and banking sector and also including the resource and energy corporations and contractors in infrastructure projects, based predominantly in the West and the South. As the American state began to play a more active role in the global rise of these large corporate groups, some neo-liberals criticized mercantilist interventions on their behalf, citing, for example, the IMF as little more than a mechanism for bailing out US banks in the global market and rescuing them from the consequences of imprudent lending decisions. Articles in the *Asian Wall Street Journal* (1997, 1998) included one editorial that even talked of the IMF in terms of a 'socialist international'.

Neo-liberal critics were also uneasy about the Bush government's retreat on corporate regulation, which was seen as opening the door to widespread corporate scandals in accounting, executive bonuses and share dealing and reporting. For those neo-liberals, the particular direction of regulatory reform, as well as moves that abolished inheritance tax, were measures that effectively consolidated the rich rather than protecting the market.

In the view of neo-liberal purists, continuing conflicts over regulatory reform and the moves towards concentration of wealth embodied in the Bush tax reforms jeopardize the advance of free markets. Yet, the very difficulties of trying to regulate against corporate malfeasance suggests not only that the business lobby is influential but that mechanisms enabling corporations to evade the sort of competitive and transparent market processes have become structural requirements for the accumulation of value for important sections of the business community. This is especially the case where shareholder value is defined and exchanged through derivatives that invite imaginative accounting techniques, reporting mechanisms and complex takeovers and mergers.

These criticisms were bolstered by resentment of specific ties between the Bush administration and certain business interests.[3] *Economist* journalists, Mickelthwaite and Wooldridge (2004: 142) argue that 'Bush's enthusiasm has generally been for business, particularly big business,

rather than for the free market. His own career was a textbook example of Texan crony capitalism, characterised by a series of takeover deals in which outside investors periodically stepped in to save one floundering oil company after another.' Other critics suggested that the Bush administration, and the parties of the Right in general, should decide whether they want to defend the few against the larger interests of capitalism or embrace the substance of the pro-market agenda, suggesting a drift towards the sort of personalistic market state of Berlosconi's Italy where 'the Right has not only chosen to side with the rich … it has also been acquired by a rich man – Silvio Berlosconi – and turned into his personal lobbying agency' (Zingales and McCormack 2003).

Markets and empire

A second major challenge lies in the emergence of neo-conservatism as an influential force within the Bush administration. While there is no doubt that neo-conservatives are enthusiastic supporters of market capitalism, they differ from neo-liberal purists specifically in their belief that the preservation of such a system increasingly requires a powerful state and the exercise of political muscle – including unilateral political action on the global stage. While America possessed and used a vast range of political and economic instruments to impose a virtual empire over the years (Wade 2001), neo-conservatives propose that the threat to American strategic or business interests now requires a more direct intervention to remove whole regimes where necessary and to impose political democracy and engage in nation building where failed or rogue states are seen as the problem. This, in the neo-conservative view, calls for the sort of benevolent empire that can be provided only by America (Mallaby 2002; Kagan 1998; Cooper 2002).

For their part, neo-liberal 'true believers' view these propositions with some alarm as promising nothing less than the legitimation of a powerful federal state replete with overwhelming powers of coercion and a mandate to destroy civil liberties (*The Economist* 2004: 11, 12, 24–6). Such an imperial agenda also promises huge increases in budget spending and high taxes that are argued to come naturally with imperial overstretch and are inimical to the neo-liberal principles of a minimalist state (Crane and Niskanen 2003; *Economist* 3–9 April 2004: 24, 25). One of the focal points of dispute has been the controversy that has raged around the US shift towards bilateral trade deals, seen by neo-liberal critics to embody security priorities at the expense of free trade principles and the potential unravelling of multilateral institutions established to globalize free trade (Higgott 2003).

Neo-conservatism thus offers a highly robust framework of governance for neo-liberal markets in which the Homeland Security Act, the invasion of Iraq and growing budget deficits are all part of the collateral costs of preserving the market, albeit at the expense of certain fundamental neo-liberal principles. The central question is whether this represents simply a shift towards a new political conservatism in Bush's America, a new structural imperative for the survival of US economic ascendancy or, more significantly, the appeal of a Hobbesian market state for those elites that have emerged within Bush's America.

Neo-conservatism and the new state–business relations of the Bush era: a structural or political watershed in the governance of markets?

The neo-liberal ascendancy was initially driven by a complex alliance that converged in the 1970s to address a specific crisis in western capitalism. It included what we might call the 'true believers'; mainly those politicians, officials in financial ministries and professional economists for whom neo-liberal ideas were not only a recipe for addressing the chronic and deepening fiscal crisis and inflation that accompanied the disintegration of welfare capitalism and protected industrialism, but also an abstracted set of economic rules and a morally attractive set of values for self-reliant human and social behaviour. Yet the sudden move of neo-liberalism to the front of the political stage was made possible by wider social support, including among elements of the burgeoning middle classes, often themselves the product of welfare systems, public schooling and health care, but who now welcomed the prospect of a promised prosperity even where the price might be greater concentration of wealth. Ironically, state bureaucrats were also drawn in as it became obvious that a state dedicated to enforcing and regulating markets was an expansionary state and that the ideologies of the new public management provided bureaucracy, at least at the higher levels, with a new legitimacy and political weight.

While neo-liberal governments were to abandon some sections of the business community in the upheavals of the 1970s, withdrawing their protective tariffs and subsidies as they proved increasingly uncompetitive in global markets, others in the expanding energy, finance and technology sectors were to become major beneficiaries and central pillars within the neo-liberal camp. They saw an escape from high taxation and inflexible labour markets into a world of deregulated global markets and where areas of former public ownership and monopoly were opened up. This new breed of muscular and aggressive business now

asserted the ideals of self-reliance and competition not least through the plethora of business-funded free market foundations and think-tanks such as the American Enterprise Institute and the Heritage Foundation.

There is little doubt that the highly contingent nature of these alliances and the in-built contradictions between the interest of business in profits and those of the state in revenue, war and of politicians in maintaining popular electoral support lies at the heart of the fractures now emerging in the neo-liberal camp. One important factor is that the Bush administration has built its political base on a new religious and social populism of the South and West that also includes much of blue-collar America and the socially conservative lower middle classes (Mickelthwaite and Wooldridge 2004). The sentiments of self-reliance, rugged individualism and hostility to governments that are part of this new social and religious conservatism are blended easily with the rhetoric of the new business elites.

The growing influence of conservative populism also provided a benign environment for the rise of neo-conservatism. Rejection of the United Nations, multilateralism and collective global action in general in favour of taking the world by the scruff of the neck, asserting US interests and values more forcefully are sentiments that appeal to the general xenophobia embedded in the new conservative populism. Yet, such populist and inward-looking rhetoric had always been possible. Why, then, did the Bush administration feel the need to move beyond the traditional opportunistic use of muscle to manipulate a revolving door of dictators that had proved such an effective weapon in the support of American interests in Central and South America in the 1960s and 1970s towards a more expansive and overt idea of empire?

Neo-conservatives themselves are convinced that their agendas for unilateral and pre-emptive political actions are necessary in order to protect liberal society, and US interests in particular, from growing structural threats of terror and from the endemic problems of rogue regimes and failed states. However, this particular interpretation of the imperial imperative is given a less benign twist by more critical observers on the left who see the drift to empire as nothing less than an increasingly desperate measure to prop up an imploding US economic hegemony (Harvey 2003; Tabb 2002a; Mann 2001; Gowan 2004a, 2004b). On the one hand, it is proposed, growing fragility within the US economy is reflected in deepening budget and current account deficits precariously balanced on the continued willingness of (mainly Asian) central banks to keep large amounts of their currency in dollar-denominated bonds in America. This threat is combined with the episodes of asset deflation

that occurred in the late 1990s at the end of the dot.com boom and the corporate fraud and dishonesty that precipitated the collapse of such giants as Enron and World.Com. As Harvey (2003: 72) has noted, the sort of structural adjustment package that might be recommended by the IMF in such situations were not options in America. Instead, the pressures to preserve the American economy are focused on securing primacy in the global sphere.

In this view, America is challenged by new and potential economic superpowers such as China, Russia and, indeed, an increasingly unified Europe able to compete more effectively for global markets and energy resources. They threaten to form new regional trade and economic alliances outside the US sphere of influence. Such a situation, it is argued, requires nothing less than the direct exercise of imperial power in a reconstruction of what Gowan has called US 'primacy'.[4] Thus, the forward push into the Eastern Mediterranean, Central Asia and the Middle East, of which the Iraq campaign is a part, was designed, in this view, to secure strategic control of oil resources (Harvey 2003: 82, 83). At the same time, America is impelled to disorganize attempts to form cohesive regional political economies and to ensure some sort of dependency upon the US, especially in the case of China where, as Gowan (2004b: 312–13) argues,

> The task of US strategy is to prevent China from becoming the centre of a cohesive regional political economy while simultaneously attempting to transform China in ways that will make it structurally dependent upon the USA. All the resources of the American state – economic statecraft, military statecraft – and ideological instruments, will be mobilised for this battle in the coming years.

The proposition that the neo-conservative option is a structurally necessary prescription to preserve neo-liberalism at a time of crisis and threat neglects the range of powerful options that already exist to deal with the problem (Wade 2002a). These include the incipient structural pressures of global capital and financial markets – Friedman's anonymous currency dealers and funds managers – or the leverage exercised by international development agencies and financial institutions as well as ratings agencies over the policies of economically beleaguered governments. In reality, there may be less difference between the global practices of neo-conservatives and their conservative or even liberal predecessors than is commonly assumed. Democracy promotion agendas have invariably given way to security priorities (as, for example,

in Saudi Arabia or Uzbekistan) and when these in turn, as Lafer (2004) argues, come into conflict with national economic or corporate interests, it is usually the latter that prevail. What is different about the neo-liberal advance is that the 'true believers' have been eased out of the driver's seat and the techno-managerial state is now more directly targeted, not towards the preservation of an abstracted set of market principles but rather to providing for that particular set of interests now embodied within the new business and political elites a more insulated and powerful means of enforcing their own interests and, if need be, over the very principles of the market.

Conclusion

Despite the apprehensions of many neo-liberals the neo-liberal project remains the dominant agenda within which the transformation of global political and economic life is moving. The competitive forces that drive global markets impose unrelenting pressures upon nations in the scramble for markets and investment and even the last redoubts of social democracy in Europe appear inescapably locked into the sort of deregulation of labour markets and social welfare regimes that drove neo-liberal reform in other social democracies in Britain and Australia two decades ago. The question is: how will these new market societies be governed?

While techno-managerial forms of rule offer to the ideologues of neo-liberalism the option of closing the door to predatory, rent-seeking opposition and extending the principles of the market into all facets of political and social life, more instrumental forms of state authority, defined by cronyism and populist social contracts, offer to the powerful beneficiaries of the neo-liberal revolution – including the new national and global business interests – the chance to harness the state to their more immediate interests. Such inner tensions are moderated generally by a common opposition to the principles of social democracy and to the ascendancy of the public sphere. Nevertheless, they indicate a central dilemma in the neo-liberal agenda that lies between the idea of the market and the market as a social order; between the defenders of the market ideal and its most powerful beneficiaries.

Notes

1 I would like to thank several people for constructive comments on earlier versions of this chapter. These include Vedi Hadiz, Kevin Hewison, Wil Hout and Garry Rodan.

2 Hayek, who, like many neo-liberal theorists, proposes that economic freedom is the basis of political freedom, also argues that: 'Liberalism and democracy, although compatible, are not the same. The first is concerned with the extent of government power, the second with who holds the power. The difference is best seen if we consider their opposites: the opposite of liberalism is totalitarianism, while the opposite of democracy is authoritarianism. In consequence, it is at least possible in principle that a democratic government may be totalitarian and that an authoritarian government may act on liberal principles' (1967: 161).
3 Most recently, the allocation of lucrative tenders in Iraq, mainly the Halliburton contracts (Wedel 2004), have provided a focal point for criticism (see also Tabb, this volume).
4 Gowan (2004a) describes primacy as constituting: (a) a basic security dependency upon US by other states; (b) US management of the geopolitical and accumulation strategies of other major capitalist states; and (c) US claim on special rights and privileges outside stable rules and institutions.

2
Two Faces of Neo-liberalism[1]

Andrew Gamble

One of the significant trends of the last thirty years has been the reinvention of economic liberalism both as a form of political economy and as a political ideology. This cluster of ideas and policies has become known as neo-liberalism, and by the end of the twentieth century many had come to regard it not just as a hegemonic ideology but also as a largely unchallenged one, following the collapse of Communism in the USSR, the fading of alternative paths of development in the Third World and the new trajectory of social democracy in the West (Fukuyama 1992; Gamble 2000). Capital appeared to be triumphant once more. Furthermore, the nostrums of economic liberalism about the organization of the economy were once more being expressed as simple common sense and were encountering relatively little challenge, either politically or intellectually. The world was once again proclaimed to be One World, and it was a neo-liberal world.

The contrast with the 1970s is marked. At that time the long postwar boom was finally coming to an end, and the remarkable stabilization of capitalism which had taken place in the 1950s and 1960s was being challenged by an upsurge of industrial militancy in the capitalist heartlands, by the exploration of alternative paths of development by many countries in the capitalist periphery, and by the unmistakeable signs of a coming major global recession. The celebration of the end of ideology (Bell 1960) in the 1950s and fears for the disappearance of opposition in the West (Marcuse 1964) and the imposition of one model of development on the rest of the world appeared premature. In many of the major capitalist economies the basis of the political settlement between labour and capital, the Keynesian welfare state, which had stabilized and legitimized capitalism since the 1940s, came under challenge. The death throes of this regime were protracted and led to a political polarization

in the leading capitalist countries. Many on the left expected that with the return of old-fashioned capitalist crisis there would be new strategic openings for anti-capitalist forces of all kinds (Mandel 1978), both in the metropolitan centres and in the countries of the periphery.

The 1970s and 1980s witnessed a great convulsion in world capitalism – at once economic, political and ideological – a period of major restructuring, the contours of which were often hard to discern at the time, and frequently misunderstood. This was particularly true of the role played by new forms of ideology in the crisis, and in particular of neo-liberalism. The revival of doctrines of the free market, both as ideology and as political economy, was a significant feature of the period, but there was little agreement at first as to what it meant, and whether it indicated any deeper change of substance. The strong temptation in the West was to see neo-liberalism as trying to put the clock back to a kind of capitalism which no longer existed. It took some time to appreciate that neo-liberalism did have some distinctive new features as the prefix 'neo' implied, and was an integral part of the re-organisation of capitalist relations which was taking place.

Neo-liberalism is a term little used by neo-liberals. They tend to prefer other labels – free market liberalism, classical liberalism, liberal conservatives, economic conservatives or simply plain economic liberalism. The term was first used in the 1930s by the German economist, Alexander Rüstow, to describe new currents of liberal thought which were hostile to the forms of statism and collectivism which had been so dominant in the first half of the twentieth century (Nicholls 1994), and sought a new form of political economy which would give priority to market rather than bureaucratic or hierarchical means of ordering the economy, within a framework of law. These ideas were the inspiration for the experiments with a social market economy in Germany after 1945, and also for the founding of the Mont Pelerin society in 1948 by Hayek, Friedman, and others, in a defiant gesture against what they saw at the time as the dominance of anti-liberal ideals. Mont Pelerin was primarily a discussion circle for intellectuals, but many of its members were to be key figures in the later dissemination and popularisation of neo-liberal ideas (Turner 2004).

From the start, however, there have been at least two main strands of neo-liberalism, echoing the dominant strands of classical liberalism in the nineteenth century. There is a laissez-faire strand – the belief that the best policy is to allow markets to operate with as few impediments as possible – and there is a social market strand – which believes that for the free market to reach its full potential the state has to be active in

creating and sustaining the institutions which make that possible. Both strands give priority to the market within social relations, and both imply an active state. But in the first case the role of the state is primarily to remove obstacles to the way in which markets function, while in the second the state also has the role and responsibility to intervene to create the right kind of institutional setting within which markets can function. This second strand of neo-liberalism legitimates a wide range of state intervention – from the encouragement of structural adjustment, social capital and good governance in developing economies, to welfare safety nets, to investment in human capital, to environmental protection, to corporate social responsibility, even to limited forms of redistribution. By contrast, the laissez-faire strand is much more hard-headed and mean-minded. It is instinctively averse to interventions in markets, believing that such interventions do more harm than good, and that the outcomes of markets left to themselves are almost always benign, or at least as benign as it is possible for outcomes to be in an imperfect world.

It is tempting to confine the label neo-liberalism to the laissez-faire strand, but this would be to exclude many ideas and policies, which are routinely dubbed 'neo-liberal' in many different regions around the world – the policies of many international agencies, for example, including the World Bank and the IMF, as well as governments of different party complexions. Neo-liberalism, in common with many other ideologies, is made up of contradictory ideas and principles, which are used quite freely to construct a range of different discourses (Freeden 1996). Nevertheless, there do remain some core ideas by which all strands of neo-liberalism are recognisable, and one of these is the relationship of the state to the market. The market has primacy, but all neo-liberals recognise that a market order requires a particular kind of state to secure it. A free economy requires a strong state, both to overcome the obstacles and resistance to the institutions of a free economy, which constantly recur, and also to provide the non-market institutions, which are necessary for the market to be successful and legitimate (Gamble 1994). The necessity for the economy to be free and the state to be strong is perhaps the chief hallmark of neo-liberal thinking, but also one of the main sources of its contradictions.

As an intellectual doctrine, neo-liberalism first began to acquire wider attention through the critique of Keynesianism that began to emerge in the Anglo-American world in the late 1960s as inflation began to rise. The spearhead of this attack was the doctrine of monetarism associated with economists such as Milton Friedman and Alan Walters, but it

allowed the much wider critique of state involvement in the economy associated with the Austrian School and in particular with Friedrich Hayek and Ludwig von Mises to gain prominence (Barry 1987). By the early 1970s the writings of Friedman and Hayek were being widely disseminated by think-tanks like the Institute of Economic Affairs in Britain and the Heritage Foundation in the United States, and by influential financial journalists such as Peter Jay on the *Times* and Samuel Brittan on the *Financial Times* (Cockett 1995).

Until the acceleration of inflation in the leading capitalist economies at the end of the 1980s the monetarist critique of Keynesianism and the Austrian critique of social democracy had been treated with considerable disbelief, being seen as purely 'ideological' in a pejorative sense, throwbacks to an earlier stage of capitalism and having no real relation to the realities of modern capitalism. When *The Constitution of Liberty* had appeared in 1960 it was described by George Lichtheim as advocating a return to nineteenth-century laissez-faire, something which he regarded not only as undesirable but as impractical: 'With its remorseless extrapolation of the logic inherent in the liberal doctrine, its unflinching demonstration that individualism is incompatible with the vital needs of modern society, this massive work stand as both a timely waning to political philosophers and an impressive monument to a myth' (Gamble 1996: 3). Capitalism was now corporate capitalism, which required very different ways of legitimating and organizing itself than the simple precepts of economic liberalism allowed. There was a common view, particularly among Keynesians, that the success of capitalism in recovering from the Depression of the 1930s and reorganizing itself so successfully after 1945, and projecting itself as a development model for the whole world, was attributable to the much greater role played by the state in building prosperous national economies and redistributive welfare states, and actively promoting development and modernization around the globe. The state had a role at least equal to that of the market – and in many instances superior to it. The idea that the state should cease to be interventionist and should revert to a nineteenth-century 'night watchman' role, abandoning the lessons of Keynesianism and of social democracy and planned development, seemed bizarre and likely to precipitate a much deeper crisis for capitalism than the one that was currently being faced.

What surprised many of these critics was the speed with which the ideas of neo-liberalism jumped the barrier into practical politics, establishing themselves as leading ideas both in the national politics of particular states, and, perhaps more crucially, in the thinking of the

international agencies of the global order in the 1970s and 1980s. If neo-liberalism had had to rely for its dissemination on the internal politics of each individual capitalist state, its spread might have been slower and its influence less profound. But the end of the fixed exchange rate system in 1971 centred on the dollar and the floating of all the major currencies gave an enormous boost to monetarist ideas as the means for containing inflation from the mid-1970s onwards. The crucial development was the adoption of basic neo-liberal precepts by the international agencies as the new orthodoxy for containing the problems of stagflation. This was followed by the translation of these ideas into domestic programmes in the United States, Australia, New Zealand and Britain, and into new international programmes for dealing with the escalating debt of many developing economies.

Coming to terms with the significance of neo-liberalism has been a key element in understanding the changing character of contemporary capitalism. As stated above, at first many analysts were disposed to see it as an aberration, a throwback to an earlier period of capitalism, a revival of the discredited doctrines of laissez-faire, lacking foundations in the contemporary capitalist world. It was therefore strictly irrational as a response to the problems facing capitalism in the 1970s (Glyn and Harrison 1980). There was a widespread assumption, for example, on the left that capitalism in its monopoly phase could not afford the remedies offered by neo-liberalism. If they were to be adopted the result would be economic disaster, precipitating collapse on the scale of the 1930s, the eruption of major class struggles, and a huge spur to anti-capitalist movements in the capitalist periphery seeking to break away or insulate themselves from the global market. At the domestic level Keynesianism was still widely regarded as the most effective economic and political strategy for capitalism. It legitimated an active state to stabilize demand and maintain the economy close to full employment through the use of automatic stabilizers and high levels of public spending on welfare and defence programmes. The Keynesian policy regime was in difficulties in the 1970s because of the acceleration of inflation which exacerbated the fiscal crisis of the state and precipitated recession and sharply rising unemployment. But most economists continued to think that the choice, as far as metropolitan capitalism was concerned, was between a Keynesianism-plus programme, or a socialist alternative.

By the end of the 1980s neo-liberalism had successfully redrawn the terms of the debate, sidelining both Keynesianism and its socialist alternatives. In Britain and the United States the political interventions represented by Thatcherism and Reaganism established neo-liberalism as

the new dominant common sense, the paradigm shaping all policies. In many ways this was its most important accomplishment – it brought an end to the brief period when, as in the 1930s, there was entertainment of the idea that there might be serious alternatives to capitalism. Neo-liberalism reaffirmed the inevitability and legitimacy of the basic institutions of the capitalist order.

This political ascendancy of neo-liberal ideas could not be denied, but their rationality was still contested. One way of doing this became to contrast the influence of neo-liberalism in different models of capitalism. It was noticed that neo-liberal ideas were largely confined to the English-speaking countries of Anglo-America, and had much less salience in other leading capitalist economies, particularly in countries in the European Union outside Britain, and in East Asia, although they had been picked up and remorselessly applied in several countries outside the core, such as Chile. This led to the suggestion that neo-liberal ideas were a defensive strategy to shore up a failing model of capitalism which was increasingly under pressure from more successful models, particularly Germany, Japan and Sweden (Marquand 1988; Albert 1993). There was widespread incredulity at many of the policies which were prescribed by the Reagan administration and the Thatcher government and frequent predictions that while they might protect existing capitalist property in the short run, they would only do so by weakening the long-term performance of their national capitalisms, and thereby endangering the stability and legitimacy of the liberal world order. The destruction of manufacturing capacity and the undermining of investment in both welfare and infrastructure were widely regarded as perverse, particularly when measured against the performance of other capitalist economies, which appeared to manage with much lower unemployment, higher growth and more generous welfare services. The idea that the United States and Britain in particular were being outcompeted and left behind was very strong in the 1980s at the time of the debates on British and US decline (Coates 2000). Neo-liberalism was regarded as the ideology of an out-of-date capitalist model, which lacked the analytical tools to direct policy to appropriate remedies.

This view of neo-liberalism has remained influential and continued to inspire analyses in political economy of the policies that would be needed to reverse economic decline by making British and American capitalism more like the model observed in German or East Asian capitalism (Hutton 1995). This perspective was weakened, however, by the resurgence of American – and to a lesser extent British – capitalism in the 1990s, and the difficulties encountered by other national capitalisms,

particularly those of Germany, Japan and Sweden. By the end of the 1990s the triumphalism of US capitalism was back at full volume and neo-liberalism was unchallenged as the dominant ideology of the New World Order proclaimed by the Americans and had become inseparable from the discourse of globalization. By this means the domestic and the global aspects of neo-liberalism tended to merge into a single doctrine, appropriate to the restored unity of the global economy.

The idea of national capitalisms accordingly began to give way to new analyses of capitalism as a global system of accumulation, allowing different assessments of the role of ideology and politics in capitalist societies. Many of the analyses of neo-liberalism as irrational were focused on national capitalisms and particular sectors, such as industrial capital. But treating capitalism as a global system of accumulation and considering it from the standpoint of 'capital in general' rather than national or local capital, the rationality of neo-liberalism, and particularly its laissez-faire strand, as a political and economic strategy in a period of restructuring is more apparent. Neo-liberalism gives priority to capital as money and therefore to the financial circuit rather than to the production circuit. In a period of rapid restructuring this has the advantage of enabling policies to be adopted which clear the decks, removing subsidies and protection, and freeing up capital from fixed positions. It allows capital to regain mobility, dissolving the spatial and institutional rigidities in which it had become encased (Harvey 1982).

From this perspective the contribution of neo-liberalism to the restructuring of capitalism was that it provided a means by which capital could begin to disengage from many of the positions and commitments which had been adopted during the Keynesian era at both the national and international levels. The priority of monetarism was to make sound money once more the cornerstone of economic policy, and to abandon Keynesian commitments to full employment and economic growth, and to planned development in the developing world. The issue was never really whether monetarism as a technique could do what it claimed. In fact, monetarism in its initial forms proved to be unworkable, because whichever indicator of money supply was used, governments found they then lost control of other forms of money. The real significance of monetarism was political. As Hayek (1972) noted, the key issue was to recognise that inflation was not a matter of technical error on the part of the monetary authorities, but of the political balance of power. Kalecki's (1943) famous analysis of the political import of Keynesianism, argued that it represented an alteration in the balance of power between labour and capital. If governments committed themselves

to policies of full employment it meant a significant weakening of the normal capitalist disciplines of bankruptcy and unemployment and a huge increase in the bargaining power of organized labour, particularly with regard to wages. The neo-liberal analysis was that this had led to the progressive extension of state intervention over the market economy in the form of wage and price controls, and the development of corporatist modes of governance for the economy. The political message of neo-liberalism was that the outcome of Keynesian political economy was accelerating inflation and growing state intervention. Making sound money once again the cornerstone of policy meant being prepared to take on politically all the vested interests which had grown up through the extended state and which helped to perpetuate the policies which were restricting the rights of managers to manage and were tying capital down in increasingly ossified economic and organizational structures.

Chief among these targets in the metropolitan countries were trade unions and the welfare state. As many costs as possible were to be shifted from the state and back onto individuals; and markets, particularly labour markets, should be made as flexible as possible. Viewed from the standpoint of capital in general rather than of particular capitals, neo-liberalism offers a simple and straightforward criterion for the direction of policy. The presumption is always in favour of recreating the best conditions for markets to flourish, which means removing as many restrictions on competition as possible and empowering market agents by reducing the burdens of taxation. For such a policy to be effective the state has to be prepared to break the resistance of any group which demands market protection or subsidy through the state. In practice, there are many exceptions. Since the extended state of the last hundred years was built up precisely through the granting of such protections and subsidies to one group after another such a task was ambitious in the extreme. It implied unwinding not just the coils of social democracy but the coils of all forms of democracy, including those which were in the electoral interests of the right (Hayek 1944). The leading capitalist powers have always found it easier imposing neo-liberal prescriptions on the 'failed states' of the periphery, rather than upon themselves.

As a result it has always been easier to set out what a neo-liberal programme should be rather than actually to implement it in practice, particularly in the developed capitalist states. It has often been easier outside the metropolitan core. In the last twenty years the actual record of even the most neo-liberal regimes have been deeply disappointing to many of their supporters, because they have failed to make the dramatic

inroads into state provision and taxation which had been hoped for. Neo-liberal intellectuals have often been as disillusioned with 'their' governments as socialist intellectuals have traditionally been with theirs.

One of the main reasons for this has been that neo-liberal governments in the capitalist core have been beset by dilemmas, among them the following: How far should they go in dismantling the state? How should they deal with corporate power? Can the state be reformed so that it merely polices the market order rather than intervening directly in the decisions which individuals should take? Can a liberal market order be reconciled with democracy and popular sovereignty? If it cannot, how can the legitimacy of the market order be assured? Can the process of democracy be trusted to produce governments that uphold the rules constituting the market order? How can the principle of popular sovereignty be subordinated to the overriding requirement of safeguarding the principles of a market order without suspending democracy? If, however, a market order can only be sustained by an authoritarian government, how stable and permanent will such a regime be?

Neo-liberals, particularly those addicted to rational choice models of government, often assert that the pursuit of self-interest is the overriding factor in determining the behaviour of individuals in both the public and private sectors. The difference is that in the private sector individuals are subject to competition, and the enforcement of these rules guarantees that choices are efficient and in the public interest. In the public sector there are no such checks, with the consequence that government departments and their budgets continually expand (Niskanen 1973). The paradox for neo-liberals is that their revolution in government requires that a group of individuals be found who are not governed by self-interest, but are motivated purely by the public good of upholding the rules of the market order. Yet if such a group existed it would contradict a basic premise of neo-liberal analysis. Since all power corrupts, even the most selfless neo-liberal government will soon find itself taking decisions which benefit the interests of the state or of corporate interests rather than those of the wider public.

One way out of this dilemma would be for neo-liberals to become libertarians and advocate the wholesale dismantling of the state, including state provision for defence and policing (Rothbard 1978). But if one thing distinguishes neo-liberals it is that they believe in the importance of maintaining a minimal state and acknowledge that without certain of the functions which the state discharges the market order could not exist at all. This is the Hobbesian side of their dilemma. Should they agree to cede all power to the Sovereign and trust that the Sovereign will

be benign and govern in accordance with neo-liberal principles? Their own analysis of human nature gives them no reason for thinking that the Sovereign will be anything but self-interested. The advent of democracy and the idea of popular sovereignty do not solve this problem. In fact, they intensify it, since neo-liberals gloomily conclude that states gain even greater legitimacy by wrapping themselves in its mantle, and this emboldens them to interfere with the market in the name of the people, but in reality at the behest of all the special interests which come to infest the state and shape the policy of the government.

As a result, granting the state absolute powers has generally seemed too risky to liberals, so they move from the Hobbesian side of their dilemma to the Lockean, by trying to make the powers of the state as limited as possible. The traditional liberal device for doing this is to separate the powers of the state into executive, legislature and judiciary, and make the government directly accountable to the people through regular elections. But it has always been hard to make this balance of power work without paralysing the government or allowing one section to dominate, and it poses the dilemma starkly: can the people be trusted to protect the market order and make their electoral choices in line with true liberal principles? When the electorate was confined to those who owned substantial amounts of property, it was reasonable to suppose that they would have an interest in preserving the rules of the market order and could be relied on to ensure through the way they cast their votes that the government did the same. But once the notion of the people was widened to all citizens, the difficulty of keeping the state minimal became acute, because it was obviously in the interests of politicians to promise benefits to particular groups of voters, spreading the costs over the whole body of citizens. This democratic ratchet, which saw each party in practice seeking to outbid every other party, gave the growth of the state an unstoppable momentum. This has presented neo-liberals with an unenviable choice – between trusting the sovereign or trusting the people.

In the eyes of neo-liberals the greatest failure of governments that have professed neo-liberal principles is that they have been unable to reverse the democratic ratchet and substantially reduce the size of the state. Despite all the rhetoric of 'rolling back' the state, the actual accomplishments in the metropolitan capitalist core were much more modest. For example, the Thatcher government was spending slightly more as a percentage of national income when it left power than when it came in. The burden of taxation was not reduced, but actually rose. What did change was the composition of public spending and of

taxation. The Thatcher government greatly reduced spending on programmes such as housing and industry, but was unable to cut back significantly on either education or health, and saw spending on social security and welfare dependency rocket, as the great shakeout of unprofitable British industry began and the level of unemployment doubled. But the ways of financing this expenditure were shifted away from direct to indirect taxation, with a doubling of VAT and a sharp reduction in income tax, particularly the top rates, assisted by North Sea oil revenues, the privatization of profitable state industries, and the sale of council houses. These changes were very important politically and helped consolidate the electoral coalition and the coalition of special interests which Thatcher had assembled, but it did not amount to a substantial and permanent reduction in the size of the state. Many of the neo-liberal supporters of the government wanted the Thatcher government to move towards a minimal state by taking the axe to state education and the National Health Service, encouraging people to take out private insurance for health and introducing voucher schemes for education. Several radical proposals were floated, notably in a Cabinet Office paper in 1982 which proposed ending automatic inflation protection for all social security benefits, ending state funding of higher education, replacing the NHS with private health insurance, charging for visits to the doctor, and introducing vouchers in education (Timmins 2001: 390). None of them were implemented. On one issue where the Thatcher government did attempt a radical shift, abolishing local property taxes in favour of a poll tax justifying the switch with impeccable neo-liberal arguments, it suffered a serious popular revolt, and this was one of the factors in the eventual downfall of Thatcher herself. Her successors quickly moved to ditch the offending tax.

The difficulty of engineering serious retrenchment in state spending (Pierson 1994) caused neo-liberal governments to shift their focus to how to make the public sector more efficient by introducing the disciplines of the market into the state. They embraced enthusiastically the techniques of the new public management, with its audits, targets, internal markets, performance indicators, and emphasis upon outputs. But the new public management was not the same as privatization. It has certainly been used to increase private sector involvement in the delivery of public services, but its central thrust is not so much concerned with shrinking the scale of government as with expanding its scope. The new public management, with its mantras of enabling government, steering not rowing, and the purchaser/provider split, was all about making the case for more active, efficient and effective

government (Pierre and Peters 2000). But if government is more active, efficient, and effective it is also likely to be more legitimate and to expand rather than to contract. Neo-liberals are caught again in a dilemma. If the state can be so reorganized that it delivers high quality public services, the need to privatise state services diminishes. On the whole, despite their rhetoric of rolling back, Conservative Governments in Britain between 1979 and 1997 did more to get the public sector to perform better than to dismantle it. This commitment to technocratic managerialism was much more apparent than any faith in neo-liberal principles about trusting in markets to deliver. Markets were used as managerial tools in the pursuit of publicly determined objectives.

The broader difficulty for the laissez-faire strand of neo-liberalism is that capitalism needs democratic legitimacy if is to survive, and welfare programmes since the time of Bismarck and Chamberlain have been recognised in the leading capitalist governments as part of the price capital has to pay for that legitimacy. Dismantling welfare provision and trade unions might provide capital with some short-term benefits, but in the long run risks leading to a build-up of hostility and desperation amongst the poor and the propertyless. One of the arguments for welfare programmes which found support on both right and left was that such programmes were necessary to incorporate the mass of the population within the capitalist order and let everyone feel they had a stake in it. In the leading capitalist economies, democracy tended to be social democracy because mass electorates voted for parties which would deliver collective social provision. In the era of mass democracies political parties of the right have always had to find programmes which could mobilize support, and often found it not in neo-liberal policies but in collectivist policies which promised security and protection. Laissez-faire seemed outmoded in the first half of the twentieth century partly because it had such weak electoral appeal. A programme to preserve the general rules which allowed the market order to function and stripped away all the protections and benefits which had been secured over several generations was never likely to be wildly popular.

Neo-liberals themselves tend not to be very good at winning electoral support. But a number of politicians have been adroit either at combining the neo-liberal economic programme with conservative policies which do appeal to particular interests and groups, or at recasting the neo-liberal economic policies in ways that resonate as popular common sense. The authoritarian populism of Thatcher and Reagan were two such successful employments of neo-liberalism by politicians on the right (Hall 1988; Hoover and Plant 1989). Both Thatcherism and

Reaganism had their own special interests which were subsidized up to the hilt, but from this base they targeted particular vested interests and particular government programmes, although both presided over an expansion of government – in the case of Reagan a massive expansion because of the defence budget. But despite – or perhaps because of – these glaring inconsistencies they were also able to force home their central ideological message that the age of big government was over, that governments existed to enable markets to work better, and to sustain the political and legal foundations of the market order. Thus were born these strange hybrids of Conservative government professing neo- liberal principles, and attempting to impose them on everyone except themselves.

In the 1990s the revival of the United States economy appeared to reinforce the neo-liberal message. By this time neo-liberalism had became associated with the new discourse about globalization, the Washington Consensus, and, therefore, with the policies of international agencies such as the IMF and World Bank pushing neo-liberal agendas throughout the capitalist periphery. The neo-liberal model was to be the template for the whole world. In this context neo-liberalism began to take on the mantle of a new hegemonic creed. At the same time it became more varied. As argued above, there have always been both laissez-faire and social market strands within neo-liberalism, and these strands were to become sharply delineated in the debates around the global economy and the appropriate institutions for it. The laissez-faire strand of neo-liberalism believed that what was needed was for states to get out of the way of the global market, and allow the benign processes of competition to work their magic. Privatization, deregulation, open borders, free trade and low tax regimes were the engines of progress. National governments and their protectionist policies and interventionist bureaucracies were the main obstacles to global prosperity.

This analysis extended among some of the more radical neo-liberals to many of the existing institutions of the global economy, including the World Bank and the IMF, which were regarded – along with the United Nations and the whole programme of foreign aid – as misguided political intervention in the global economy. Foreign aid was treated as a welfare programme at the international level which should be scrapped. The World Bank and the IMF were considered to be embryonic forms of a global government and were criticized for thinking of the global economy in Keynesian terms.

However, it was clear to many neo-liberals that the stability of the global economy did require a certain level of institutionalization, the formation in effect of a minimal state for the global level, paralleling

some of the functions which the state performed at the national level. In this way a new role for organizations like the IMF, the World Bank, and the WTO was devised. They were to become the agents for fostering the kind of policies and institutions, both national and international, which would make it easier for countries to enter the global market. Programmes for structural adjustment, investment in human capital, good governance and the building of social capital all followed. From a social market perspective interventions to reform the WTO and end the protectionist policies of the US and the EU, to advance the Kyoto agreements on climate change, and even tentative steps to address questions of the vast disparities in wealth and resources between different parts of the global economy could all be justified.

Prospects for neo-liberalism

One influential vision of the future for neo-liberalism, developed by theorists like Robert Cox and influenced by Karl Polanyi, is that neo-liberalism as a political and ideological project should be understood as the successor to the economic liberalism of the nineteenth century, the ideological and political project which had been responsible for the free market experiments of that time (Polanyi 1957; Cox 1996). Resistance to the consequences of free market policies from right and left led to the extension of collective control and regulation of the market in the twentieth century. Neo-liberalism represents the breakdown of those systems of control and regulation and the unleashing once more of the free market. Some think that the effect of the application of neo-liberal policies throughout the world will produce in time a strong political reaction and the re-regulation of capital at some point in the future. Pessimists believe that the more likely outcome is a fracturing of the global economy into antagonistic and protectionist regional blocs.

A different assessment of neo-liberalism and its prospects gives much less weight to it as a global ideology, and instead emphasizes the competitive pressures of capital accumulation in forcing the convergence of all capitalist models and all national economies towards neo-liberal institutions and policies, such as privatization, deregulation, shareholder value, flexible labour markets, and residual welfare (Coates 2000). There remains great controversy over how strong these pressures for convergence are, and how well they are being resisted. But there is a widespread acceptance that they exist. An influential variant of this view has analysed the imposition of disciplinary neo-liberalism through the main institutions of the global economy (Gill 1995).

Neo-liberalism has been interpreted in many different ways since it emerged, hydra-headed, in the 1970s. No sooner has one head been cut off than another has appeared, hissing all the louder. What has to be avoided, however, is a tendency to reify neo-liberalism and to treat it as a phenomenon which manifests itself everywhere and in everything. This kind of reductionism is not very useful. Far better to deconstruct neo-liberalism into the different doctrines and ideas which compose it, and relate them to particular practices and political projects, rather than treating it as though it is the source of everything else, from New Labour to global poverty. European social democracy, for example, has plainly been influenced by neo-liberal ideas, but to suggest that it has become simply an expression of neo-liberalism, is too simple a judgement. Many other factors are at work. Ideologies are extremely important, but ideological determinism is in the end no better than economic determinism, and no more illuminating.

What the history of neo-liberalism shows is that like other ideologies there is no pure form of it, and no single authoritative statement, and within its compass there can be found both highly subtle and extraordinarily crude versions. There are also a number of different political forms which it can take, a variety of hybrids and compounds. Much energy has been profitably spent identifying the links between neo-liberals and conservatives, including neo-conservatives, as well as social democrats.

It is sometimes asked whether within the confines of capitalist global economy there is any alternative to neo-liberalism, and some seem to think that so total has become the domination of capital and so one-dimensional the discourses surrounding it that the only possible opposition is total opposition from outside the system, such as the insurgents in Iraq (Watkins 2004). This view is profoundly pessimistic because it implies that only total overthrow of existing power relations from below or from without offers any prospect of change. Neo-liberalism itself, however, offers many examples of how in practice attempts to implement neo-liberal programmes in both developed and developing countries have highlighted inconsistencies in its ordering principles, producing conflicts and creating different sets of political possibilities.

In a sense which is true but rather unenlightening all governments throughout the global economy are now neo-liberal governments, because they are obliged to operate within a set of structures in the global economy which reflect, however imperfectly, neo-liberal principles. What is important to grasp, however, is that neo-liberalism – like globalization – is not monolithic or proceeding in a single direction. It

has different aspects and many contradictions, which create different political spaces and possible outcomes. The two faces of neo-liberalism, on the one hand the iconoclastic, ground-clearing, radical impulse to tear down the obstacles to capital accumulation, and on the other, the concern for using the state to ensure the democratic legitimacy of the market order and to create the kind of institutions which encourage participation and limit the destructive impacts of free markets, are often in conflict and will continue to determine the way in which this doctrine develops.

Another way of putting this is to say, as Richard Robison does, that markets need empires, in the sense that the market order by itself is a fragile thing, and needs the protection of non-market institutions and a range of public goods which only the state can provide. But empires, if they are to be stable, need to become hegemonic – they need to be inclusive, not simply dominant. The great strength of laissez-faire neo-liberalism is its understanding of the logic of capitalism, and the needs of the corporations that now drive the process of accumulation. Its great weakness is its blindness to the consequences of failing to attend to the effects of unrestricted capital accumulation on global poverty, the global environment, and the legitimacy of the global political order. This is why neo-liberalism as a doctrine and as a project has already mutated and will probably mutate some more, giving opportunities for a wide range of groups and ideologies to contest its hegemony and influence its trajectory.

Note

1 This chapter develops an argument which first appeared in *Capital and Class* 75 (2001), 127–34.

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Part II

Neo-liberalism and its Global Transit

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The Politics of Neo-liberalism in Latin America: Legitimacy, Depoliticization and Technocratic Rule in Chile

Patricio Silva

Introduction

During the last decade Latin America has been plagued with severe political and economic crises that have brought democratic rule in some countries almost to the point of collapse. Expectations in the 1980s and 1990s about the ability of the new democracies and neo-liberal economic policies to provide political and economic stability in the region have rapidly evaporated. Today, the general mood among many Latin Americans about the immediate future of their countries is one of pessimism and uncertainty.

Chile, however, has so far has been spared this catastrophic scenario. The neo-liberal market economics adopted in this country since the mid-1970s have been generally regarded as successful, while neo-liberalism has obtained a solid hegemonic position both in political and ideological terms – so much so that use of the term 'neo-liberalism' has almost completely disappeared from Chilean debates and the economic model of neo-liberalism has been accepted by large sections of the population as representing the indisputable national developmental strategy for the years ahead.

This chapter analyses the rise of the neo-liberal project in Chile and describes how it has become politically legitimated among the population. It pays special attention to the process of political deactivation that has taken place since the military coup of 1973 and those political, social and cultural factors that have produced an increasing depoliticization of

the Chilean population, under both the Pinochet regime and the current Concertación governments. Since the late 1970s the 'marketization' of Chilean society and its increasingly consumerist orientation have further weakened the readiness and interest among Chilean citizens to actively participate in party politics. As the logic of the market has penetrated the ways of doing politics in the country, the media, and, particularly, television, have become the main arena in which new-style politicians 'sell' their electoral 'products' to a depoliticized mass who expect quick and concrete solutions to their particular problems and demands.

In order to stress the singularities of the Chilean case I will start with a comparative section in which the evolution of neo-liberalism in Chile will be contrasted with general trends in the rest of Latin America.

Neo-liberalism in Chile from a Latin American perspective

At the beginning of the twenty-first century there is a widespread belief that Chile represents an exception within Latin America in terms of socioeconomic development and political stability. While for the last two decades levels of poverty have increased across practically the entire region, poverty levels have been dramatically reduced in Chile and all kind of safety nets and social programmes put in place for those who still require support from the state. The country also possesses one of the most dynamic economies in the region, with increasing levels of productivity, steady expansion of exports, and high levels of foreign investment. This occurs while neighbouring countries are confronting serious economic crises and have little immediate prospect of recovery. Finally, Chile possesses one of the most stable political systems in the whole of Latin America, characterized by political consensus among most sectors of the political class and the absence of populism and ideological confrontations. Democratic governments maintain high levels of authority and legitimacy among the population and government–opposition relations are channelled within the existing political institutions. But one of the most visible differences between Chile and the rest of Latin America is certainly the degree of success neo-liberalism has achieved.

The exceptional evolution of Chilean politics and its economy and the ways in which neo-liberalism has been able to penetrate deep into Chilean society is the result of several factors. Firstly, neo-liberal reforms in Chile were implemented at a relatively early stage (from the mid-1970s) and by a cohesive team of technocrats who possessed a strong

conviction that their reforms represented the only possible solution for the country's most urgent problems. They relied on ongoing and decisive backing not only from the government of General Pinochet, but also from the political right, the entire entrepreneurial class and the army. Nowhere in Latin America was the sense of threat among the political and economic elites so high in the early 1970s as in Chile, where they confronted simultaneously a big threat both 'from above' (the Allende government) and 'from below' (the radicalized masses asking for expropriation and socialism). This specific historical scenario explains the high degree of cooperation and support provided by these elites to the subsequent military government in its efforts to reform Chilean economy along neo-liberal lines. From this perspective, neoliberalism was not seen merely as an instrument to reactivate Chilean economy, but represented a conscious attempt to eradicate all the social, political and economic factors which had previously sustained a combative labour movement and strong left-wing political parties. In this way, the neo-liberal project in Chile counted on the broad and deep support of the economic elites despite the fact neo-liberalism often negatively affected their short-term interests (as result of the eradication of subsidies, foreign competition, etc.). This constitutes one of the most important differences with the other Latin American cases where neoliberal reforms have been implemented. In contrast with the Chilean case, other Latin American governments seldom offered such a decisive and cohesive support for such thoroughgoing reform while national economic elites invariably had serious doubts about the need for these changes and in many cases openly resisted neo-liberal policies.[1]

Secondly, neo-liberal policies in Chile were applied across society in a radical and relatively consistent way, from public administration to education. The existence of a cohesive group of economists in charge of these reforms (the so-called 'Chicago Boys') facilitated the formulation and application of these reforms following a timetable in which each specific reform had to be implemented at a particular moment according to a general plan. In the rest of Latin America neo-liberal reforms were mostly applied in a more haphazard manner, as political opposition and pressure groups forced their governments to withdraw certain measures and to reformulate others, leading sometimes to contradictory measures which negatively affected the public's trust in the economy.

Thirdly, the fact that Chilean neo-liberal reforms have been relatively successful has facilitated their acceptance by broad sectors of the population, despite the fact they were originally implemented by an authoritarian regime. In the rest of Latin America most applications of

neo-liberal reforms during the 1980s have not produced a visible improvement in the economy or they have ended in a total failure and the fall of the government. So in Chile today there is a broad coalition which envisions the neo-liberal reforms as a solid basis for the further development of the country. The existence of an open market and privatized economy is not at issue and there is a broad sense that the country finally found its way to achieve development and prosperity. Together with this, the country possesses a relatively strong political party system which has been able to establish a basic consensus between government and opposition forces on the question of how to articulate free market economics with the goal of eliminating poverty in the country.

Elsewhere in the region the failure of the economic reforms, together with the emergence of anti-liberal populist leaders, have engendered a political climate in which the adoption of an anti-neo-liberal stance provides instant political and electoral benefits. This is not the case in Chile where populism is deeply mistrusted by the majority of population and where political parties, although they are less strong than in the past, still possess the capacity to maintain general agreements about the course of the country's economic policies.

And, finally, the consolidation of neo-liberalism in Chile has certainly been facilitated by the growing awareness among the Chilean population that Chile does indeed constitute an exception within Latin America. The mass media provide Chileans with images of conflicts and crisis affecting the neighbouring countries, where presidents are confronted by angry mobs and where poverty reaches explosive levels. In this manner, Chileans have developed an exceptionalist view of their society, based on democratic stability, institutional strength and growing economic prosperity and they have become increasingly conservative where the alternative seems to be that of falling into a situation comparable to other Latin American countries.

Neo-liberalism and the problem of legitimacy

Since the restoration of democratic rule in Latin America in the early 1980s, the relationship between neo-liberalism and democracy has been a tense one. Most democratic governments have been unable to legitimate economic neo-liberalism and its related discourse of modernization. It is important that the neo-liberal economic project was applied in countries such as Chile, Argentina and Uruguay by military regimes – that is, by forces expressly opposed to democracy. The 'modernization of

society' constituted the *ideé force* behind the application of the neo-liberal policies for those authoritarian regimes. This modernization project was expressed in practical terms as the accomplishment of a series of macroeconomic goals, including the privatization of the economy, the reduction of state bureaucracy, the opening of markets to foreign competition and the strengthening of the export-orientated economic sectors. What we observe today is that most of the current democratic governments continue to visualize modernity along the same macroeconomic lines as did the former military governments.

This element of continuity has made it extremely difficult for the new democratic authorities to legitimate neo-liberal policies during the 1980s and 1990s, especially among those social and political forces that had fought against the military regimes and who viewed neo-liberalism as an inadmissible legacy of the past. In the case of Chile, however, the continuation of neo-liberal policies by democratic governments proved to be much less problematic than elsewhere in the region. Although these was widespread support for the restoration of democracy, this did not include demands for the ending of the neo-liberal policies of the former regime.

An important obstacle in attempts to legitimate neo-liberal policies in countries such as Nicaragua, Venezuela and Ecuador is that the adoption of neo-liberal economic policies and its correlated modernization discourse have been regarded by large sectors of the population as being externally imposed. International financial institutions such as the International Monetary Fund (IMF) and the World Bank have been continously denounced by various Latin American political forces and social movements for imposing an unprecedented pressure on Latin American governments to apply structural adjustment policies (Petras and Morley 1992). It is argued that these 'dictates' from the North leave the new democratic governments almost no room for manoeuvre in the formulation and implementation of their own socioeconomic agendas (Green 1999). Paradoxically, this thesis (and the resulting rejection of the neo-liberal agenda) has found support in Latin America among quite heterogeneous political and social groups, including the left, certain religious groups, some nationalist sectors (both inside and outside the army) and some entrepreneurial circles (afraid of free market policies – and especially of foreign competition).

The situation in Chile is quite different. Pinochet introduced neo-liberal policies in April 1975, proceeding even Thatcherism and Reaganomics as well as the structural adjustment programmes of the international financial institutions. Although Pinochet's economists based their

models on the work of Hayek, Friedman and other neo-liberal figures from the core countries, they were quite original in translating those principles into concrete state policies and institutional arrangements. So in Chile the 'paternity' of the model has never in dispute because as both supporters and adversaries agree that neo-liberalism has mainly been 'made in Chile'. On the contrary, the adoption of the neo-liberal agenda in the early 1980s by Britain, the US and the IFIs was interpreted by the Chilean authorities – and also by some sections of the population – as a clear acknowledgement that the country had chosen the 'right' economic strategy. In the 1980s, as many Latin American countries began to explicitly adopt a series of neo-liberal policies previously applied in Chile (privatization schemes, banking laws, labour reforms, pension systems, etc.) many Chileans experienced a sense of national pride, especially when international organizations and analysts constantly presented their country as an example for others to follow.

Although very few political leaders in Latin America dare to express their unconditional support for neo-liberal economic policies, these have achieved de facto dominance in the continent. In other words, today almost no political force is seriously trying to elaborate an ideological legitimation for the new neo-liberal order. One of the few exceptions can be found again in Chile, where neo-liberalism is enthusiastically defended not only by the right-wing parties and entrepreneurs but even, though in more implicit terms, by some sectors of the left (Moulian 1997; Tironi 2002).

Finally, another major difficulty faced by new democratic governments in getting neo-liberal economic policies accepted by the people is related to the great social expectations generated by the restoration of democracy. For many Latin Americans, democracy still means a government which really cares for the needs of the majority (that is, the masses) and which has to be actively and genuinely engaged in the struggle against poverty and social injustice. There is an expectation that the new democratic states must address the immense 'social debt' left by the former authoritarian regimes. On the contrary, the restoration of democracy has often been accompanied by a further abandonment by the state of its traditional social tasks, resulting in a dramatic deepening of the social inequalities in the large majority of Latin American countries. This lack of 'social dimension' in most of the neo-liberal economic programmes applied in the region has been severely criticized by intellectuals, as well as by the Church and nongovernmental organizations (cf. Oxhorn and Ducatenzeiler 1998).

In Chile, by contrast, the new democratic authorities consciously pursued a massive expansion of social policies and the implementation of anti-poverty schemes which have been successful in reducing the levels of poverty in the country – from 41 per cent in 1990 to 21 per cent by 2003. The economic and financial solvency of the country, together with the existence of a relatively efficient state apparatus and the firm political will of the new democratic government, made this policy agenda financially, technically, and politically possible. Since the early 1990s, Chileans have become accustomed to the almost daily reinforcement – in the newspapers and on television – that their country occupies first place in Latin America in most aspects of development and welfare (from the lowest levels of child mortality to the highest incidence of broadband internet connections and cellular phones). This has provided neo-liberalism in Chile with a high degree of legitimacy.

The depoliticization of society

During the 1960s and early 1970s Chile was probably one of the most politicized countries in Latin America with party politics and politics in general, not only completely controlling the public debate, but also dominating the daily lives of millions of Chileans. The military coup of September 1973 abruptly ended the centrality of politics in Chilean society. The Pinochet regime inaugurated the 'politics of anti-politics' by which political involvement became officially synonymous with anti-patriotism, anarchy and corruption.

Contrary to what was expected, the restoration of democratic rule in Chile in 1990 was not followed by a 'political resurrection' of civil society. One of the most striking features of the new Chilean democracy has been the growing depoliticization of society and the marked absence of national political debates. In dramatic contrast with the Chilean democracy of the pre-Pinochet period, today political parties have lost most of their traditional appeal among the population, and the formal ideological background of politicians is no longer a determinant of popularity among the voters. In this new reality, there is a conscious disaffiliation of political figures from political parties. In recent electoral contests, most candidates have made no reference whatsoever to the political parties they represented. Instead, a new media-centred political style has led to a rapid process of extinction for 'old-style' politicians.

The origins of this process of political deactivation lie in the former Pinochet regime, when systematic repression against any independent

political expressions inaugurated a dark period of 'forced depoliticization'. Paradoxically, state repression eventually led to the emergence of a firm response from certain sectors of civil society, especially in the germination of active social movements and the creation of many NGOs that defended human rights and attempted to ameliorate the social conditions of the rural and urban poor (Oxhorn 2001). Together with the use of physical repression, the Pinochet regime attempted to convince the population that 'politics' was synonymous with chaos. The military exploited and manipulated the feelings of discontent with politics and politicians that were already entrenched within sections of the population as a result of the general political and economic crisis during the Allende years.

The repressive nature of the Pinochet government also convinced many individuals that to become involved in politics meant risking not only one's own life but also the physical integrity of family members and friends. Although at the end many people repudiated the systematic violation of human rights by the military and demanded an immediate re-establishment of the rule of law, there remained, after so many years of official anti-political indoctrination (through mass media and education), a widespread belief that politics was indeed an intrinsically perverse activity. The restoration of democracy did not completely eliminate the deep apprehensions and mistrust that had been engendered in the previous decades against politics in general, and political parties and politicians in particular (Silva 1999).

Another factor contributing to the depoliticization of Chilean politics was the way in which the restoration of democratic rule was negotiated in a series of bargains between the democratic forces and representatives of the military government (Casper and Taylor 1996). During these negotiations, opposition forces either tacitly or explicitly agreed not to encourage a resurgence of political protest among the people. Furthermore, several democratic political leaders came to regard the continuation of the political demobilization of the masses as a prerequisite for achieving an ordered and peaceful democratic transition and to guarantee governability under the new democratic scenario This 'cupular' or top-down nature of the democratization process, often portrayed as an 'elite settlement' (Higley and Gunther 1992), produced a deep disillusionment (and a subsequent demobilization) among supporters of radical left-wing parties and members of social movements who had expected a more participatory process of democratic reconstruction.

Following the restoration of democratic rule in 1990, popular organizations expected the new authorities to bring to justice those individuals

that had been responsible for human rights abuses during the period of the military governments. However, the specific way in which the new democratic governments finally dealt with the highly controversial question of human rights abuses also contributed to the political demobilization of the population. Although the Truth and Reconciliation Commission, established by the Aylwin government in 1990, produced a detailed report about the human rights abuses perpetrated under the Pinochet regime, the self-decreed amnesty law of 1978 protected the military from possible prosecutions. Following the arrest of Pinochet in London in October 1998 and his return to Chile in March 2000 expectations were raised about a possible prosecution in his homeland. The 'Pinochet affair' reached a culmination on 9 July 2001, when an appeals court in Santiago declared General Pinochet to be mentally unfit to stand trial. Although the court decision was qualified as 'temporary' – implying that he could face a trial again if his health condition should improve in the future – everyone understood that this has marked the end of the legal prosecution of Pinochet (cf. Silva 2002).

Another factor which has helped to reinforce the apolitical nature of the Chilean population has been the traumatic effects of the social and political confrontation in the Allende years preceding the military coup. Together with the institutionalization of fear and repression during the military period, this now generated a kind of 'political exhaustion' among the generations who lived through this period (Silva 1999). The endless destabilization of daily life had produced a distressing political fatigue. Under these circumstances, a disconnection with politics became, for many people, a kind of personal 'survival strategy' in both psychological and emotional terms. The increasing 'social democratization' of broad sectors of the Chilean left is certainly another factor in contributing to the political deactivation of civil society. Most left-wing parties have explicitly abandoned the objective of revolution and replaced it with a search for gradual and consensual changes in the struggle against poverty and social inequalities.

In the new Chilean democratic order, political parties have, in general, dramatically lost their popularity. Parties and other social organizations had been severely dislocated in the Pinochet era, resulting in a substantial distance and mutual alienation between political parties (most operating clandestinely) and civil society – characteristics that continued after the restoration of democracy. The rendezvous between parties and the electorate, after so many years of disconnection, has been full of surprises. For instance, many parties had experienced dramatic ideological changes during the authoritarian period and had

become almost unrecognisable to the population in the democratic transition. In contrast, other organizations maintained their pre-coup postulates almost unaltered, and hence appeared anachronistic in a country which in the meantime had experienced profound transformations in their demographic, socioeconomic and cultural structures. As historical party loyalties disintegrated, the Chilean electorate increasingly votes, not for political parties or political projects, but for specific individuals. Television has replaced parties, unions and 'the streets' as the most important instrument for creating (and destroying) the public 'images' of the members of the political class. Political leaders no longer speak to the crowd, but address directly the atomised community of millions of television spectators.

The expansion of anti-politicism among the Chileans is also related to an increasing professionalization of politics and politicians. This has not only strengthened the use of a technocratic discourse among politicians and techno-politicians, but has also produced a marked decline in the role played by political parties in the conduction of political campaigns. Today electoral strategies and programme design have been mainly become matters for private research institutes and think-tanks. The first evidences of the increasing importance of private research institutes and think-tanks in Chilean politics appeared during and after the 1989 presidential elections (cf. Silva 2001: 409–10). During the 1999–2000 presidential elections political parties were almost completely absent from the organization and implementation of the electoral campaigns. The Instituto Libertad y Desarrollo, a neo-liberal think-tank, played a pivotal role of the right-wing candidate Joaquín Lavín (see Silva 2001).

The second consequence of rapid social and economic modernization has been the radical changes taking place in the political culture of the Chilean electorate. While the Chile of the 1980s was to some extent a continuation of the Chile of the 1960s – the political process was still dominated by an oligarchic political class – during the 1990s the model of two antagonistic ideological blocks has gradually been disappearing. As Brunner (2000: 12) points out:

> politics has ceased to be the axis of society. In turn, the citizen has dressed himself as a consumer. The old fashioned politicians despise him, but he is the one who is filling up the malls in the city … Chileans have become individualistic and pragmatic; they are more oriented towards concrete things than words … The people expect less from the state and rely more on their own efforts. Competition grows as dreams diminish. Performance indicators replace utopias

> and frustration gives way to expectations … The masses invade the markets, condition the mass media and adopt a high degree of fluidity, disconcerting the leading minorities by this.

In the same vein, Tironi (1999: 27) argues that as a result of the modernization process along neo-liberal lines the 'consumer's logic' has been internalized by the Chilean population, exerting a growing influence on its political behaviour:

> Consumers are leading a revolution that is not only economic, but also political and cultural. While in the 1970s the state was the main protagonist of Chilean society, in the 1980s the entrepreneurial class took this role. In the 1990s, however, it has been the consumer who has become the main societal actor in Chile.

Political legitimacy, consumerism and macroeconomic stability

The Concertación governments of the period 1990–2005 have attempted to counterbalance their lack of a political project by putting particular effort into expanding the level of consumption among certain segments of the population. One of the main arguments used by the authorities to legitimize policies of market liberalization was the promise of full access to better and cheaper foreign products. Indeed, after many years of applying neo-liberal economic policies, the upper and middle classes in Chile have acquired very sophisticated patterns of consumption which have resulted in the configuration of veritable 'consumer society'. The increasing presence of foreign consumer goods in most Chilean cities has radically transformed the appearance of the streets, as thousands of new cars have invaded the roads and a large number of giant shopping centres (malls) sell products from all over the world (see Tironi 2005).

Although the main beneficiaries of this pattern of increasing consumption have been the high-income groups, the rest of the population has also participated in the consumption of foreign goods. Many people who could not normally afford these products have obtained access to these goods by taking on consumer credit, or more often by making use of payment facilities (in monthly terms) offered by most large shops and stores. While the high-income sectors have obtained access to modern European cars, to very sophisticated US or Japanese electronic products and to foreign travel, the poorer segments of the population have enjoyed access to radios, television sets, battery watches, foreign clothes

and trainers. As the recent crisis in Argentina has shown, however, these consumer societies are very fragile, and they can disappear overnight with the sudden pauperization of large sectors of the middle classes in that country.

The idea of replacing 'politics' by increasing consumption constituted, together with repression, one of the central mechanisms used by the former military regime to depoliticize society. In the authoritarian conception of modernity 'liberty to consume' was intended to replace political liberty in an effort to deactivate civil society politically and to obtain the required civilian support for the military rulers. The attempt by the military governments to redefine Chileans as consumers instead of citizens was mainly directed to privatize the nature of the social relations within civil society. For this purpose, the regime tried to destroy all kinds of collective identities existing in Chilean society, such as party and neighbourhood loyalties and social solidarity with the needy. As a substitute for collective goals, the military government offered a neo-liberal ideology which was directed entirely to the achievement of individual ambitions. In this manner, individual freedom was redefined as representing free access to open markets, while the 'pleasure of consumption' was presented as an instrument to express social differentiation and as a way to obtain personal rewards. From this perspective, the regime's ideologues pointed out that social mobility was in fact mainly a question of personal achievement (cf. Lavin and Larraín 1989).

Thus, to be up to date in the acquisition of consumer goods and in the imitation of lifestyles and values imported from the industrial world as a result of the free market policies became the only way to participate in the experience of modernity; in other words 'to be modern'. As Brunner (1998: 97, 119) indicates, by itself the market is unable to produce normative consensus among the population or to generate social identities. It does not accept the constitution of solidarity bonds and rejects any behaviour that is not based on rational calculations. At most, the market can only create lifestyles that are crystallized in the consumption of particular goods. In the end, the expansion of consumerist behaviour in Chile generated a kind of passive conformism among the population, who eventually accepted the individualistic tenets of the neo-liberal economic model based on the search for private satisfactions (Silva 1995; Halpern 2002).

The increasing internationalization of the Chilean economy has not only strengthened consumerism in the local culture; it has also led to the adoption of values, beliefs, ideas and even patterns of behaviour and cultural orientations that resemble those of the core countries. Many

people have embraced a system of meritocratic and individualistic mobility, replacing the old system in which one had to be part of a group (mainly political parties) and in which mobility was conditioned mainly by the capability of the group to exert political pressure on the state. More generally, the 'discovery' of this new world of consumption convinced most social sectors that they derive a direct advantage from the deepening of the transnationalization of their societies.

Together with consumerism, the Chilean democratic governments have also tried to secure the political support of the population by attempting to obtain (and maintain) macroeconomic stability. Today in Chile it is no longer rhetoric but real socioeconomic and financial achievements that have become the main measuring criteria to evaluate the quality of governments. After so many years of neo-liberal economic rationalism many people in Chile have learned to evaluate government performances almost exclusively on the basis of economic success. Variables such as the level of inflation, the dollar rate, volume of exports and the balance of payments are the main evaluation parameters. It seems that following decades of over-ideologized discourses an increasing part of the population has become extremely conscious of choosing tangible economic benefits.

The technocratization of policy making

Following the restoration of democratic rule, technocrats have acquired a clear public presence and a higher degree of acceptance and legitimacy among the political class and the population than in the recent past. This is reflected in the fact that the leaders of technocratic-orientated economic teams, including ministers of finance such as Alejandro Foxley, have obtained significant popularity amongst the population (Domínguez 1997). This situation, however, cannot solely be explained by referring to the technocrats' central role in the application of the recent stabilization programmes or to the fact that they are now operating in a legitimate democratic environment. An even more important factor for the consolidation of technocratic politics has been the dramatic weakening of those forces which traditionally resisted technocracy in the past, such as left-wing parties, trade unions and student movements. It is the latter factor that also helps to explain why Chile has maintained neo-liberal economic policies (Silva 1998).

Given that technocratic economic teams and the application of neo-liberal economic policies constituted one of the main features of the former military regime, it is perhaps remarkable that, following the

democratic restoration, electoral formulas which openly or implicitly support neo-liberal policies – such as the Concertación coalition and the oppositional *Alianza por Chile* – have become successful. This certainly has something to do with the global hegemony achieved by neo-liberal ideology, the pressure of international financial organizations, the perceived lack of economic alternatives and the increasing political apathy the Latin American population (Espinal 1992). However, more profound reasons why large segments of civil society are beginning to accept this new technocratic and neo-liberal reality lie in quite traumatic political events of the recent past.

The Chilean military government inflicted a major blow to the politics of populism, based on clientelistic relations between the state and civil society. Indeed, populism suffered a significant psychological defeat as many people internalized the view that populism had been one of the main causes for the economic and political crisis that preceded the breakdown of democracy. The adoption of the orthodox adjustment programme by the military in April 1975 was accompanied by quite a different form of authority – specifically, the appointment of technocratic-orientated neo-liberal economists in strategic governmental positions (ministries of economic affairs, finance, central banks, planning agencies, etc.) who became responsible for the formulation and application of new economic guidelines. The extreme visibility which both the military regime and the current democratic governments have consciously given to the economic teams is related to their efforts to send the right signals both to the domestic and to the international business community (Schneider 1998). Moreover, Chilean technocrats have felt quite confident in the policies of neo-liberal economic thinking which – since the early 1980s – began to achieve an almost uncontested hegemony. As Stallings (1992: 84) points out:

> technocrats who had long argued for more open economies and a bigger role for the private sectors suddenly found increased backing from the outside. They could count on political support from the United States and other advanced industrial countries, intellectual reinforcement from the IMF and World Bank, and empirical evidence of successful performance from countries that had followed an open-economy model.

These technocrats have also played a strategic role in conducting negotiations with industrialized countries as a means to reschedule existing debts and to obtain new credits and financial aid. As Kaufman (1979: 189–90) indicates, these technocrats are more than simply

the principal architects of economic policy:

> they [are] the intellectual brokers between their governments and international capital, and symbols of the government's determination to rationalize its rule primarily in terms of economic objectives. Cooperation with international business, a fuller integration into the world economy, and a strictly secular willingness to adopt the prevailing tenets of international economic orthodoxy, all [form] a … set of intellectual parameters within which the technocrats could then 'pragmatically' pursue the requirements of stabilisation and expansion.

In this manner, local neo-liberal technocrats have become the national counterparts of foreign financial experts from lending institutions who assess the performance of the Latin American economies that are currently executing adjustment programmes. As Centeno (1993: 325–6) points out, the communication between the foreign financial experts and the local technocrats has been clearly facilitated by their common academic backgrounds; they

> not only share the same economic perspectives, but perhaps most importantly, speak the same language, both literally and metaphorically … The technocrats do not necessarily have to represent one ideological niche or the other, they simply share a familiarity with a certain language and rationale … The graduate degrees from U.S. universities … enable these persons to present arguments that their fellow alumni at the World Bank … understand and consider legitimate.

Although the above-mentioned international political and economic factors have certainly played a decisive role in legitimating and consolidating the position of technocrats within the political elite, the ascendancy of neo-liberal technocrats and their adoption of economic stabilization policy reforms has nevertheless been a product of domestic political and ideological struggles resulting in a distinctive balance of power in favour of neo-liberalism (Valdés 1995).

One of the by-products of the technocratization of decision-making has been a general trend by governments to 'technify' social and political problems. The problem of poverty, for example, has been separated from economic and social factors while the issue of social inequality is addressed in the adoption of anti-poverty strategies with a strong *asistencialista* (welfarism) orientation, intended to alleviate to some extent

the hardship of the neo-liberal policies. Such technical programmes receive financial assistance from regional institutions, including the UN Economic Commission for Latin America (ECLA) and the Inter-American Development Bank (IADB), as well as from the World Bank and from industrialised nations.

The disenchantment

Despite the marked socioeconomic and political achievements experienced in Chile in the last decade there is a certain sense of disenchantment with the accomplishments of the new democracy. While the restoration of democracy has brought a clear improvement in the human rights records and in the general macroeconomic situation, there is also disappointment in the inability of the Concertación governments to reduce the income gap between the richest and poorest segments of the population. However, the Concertación governments have abstained from playing an active role in the area of income distribution, as that option has been regarded as a step back to the old interventionist state. They prefer to accept the neo-liberal emphasis on generating economic growth and not in directly attempting to produce a better income distribution. In any case, there is little prospect of obtaining the necessary parliamentary support for distributional policies as the Right is still a very strong and important political actor in the country.

Other simmering sites of discontent are to be found in areas as diverse as resentment of the increasing influence of regional trade agreements and in the growing discontent of indigenous populations at their continued status as second-class citizens. Perhaps a more potentially dangerous issue comes from the appearance of some cases of public corruption among some politicians and public officials and the damage this has done to the prestige of democracy despite the fact that Chile still has one of the lowest levels of corruption among developing countries and a long tradition of probity. The growing presence of drug-trafficking activities has further reduced the sense of security among the population along with a perceived rise in common violence and delinquency. Opinion polls continually indicate 'criminality' as the most urgent problem for Chilean society. Although these problems are the product of a gradual disintegration of traditional norms and values, mechanisms of social control and so forth as in most industrial societies, there is nevertheless a tendency to blame democracy even though a return to the militaristic option is today not appealing for most Latin Americans.

Paradoxically, political apathy has become generalized in Chile despite (and perhaps because of) the manifest improvements in the general socioeconomic and political conditions of the population. Since the restoration of democracy in 1990 the living standards of the entire population have improved dramatically. At the same time, the political situation has been very stable as the ruling Concertación coalition has established workable agreements with the opposition. Yet the high level of political apathy among the population has been manifest, for example, during the parliamentary elections of December 1997 (voting is compulsory), where almost a third of the people who attended voting stations did not vote for any candidate (by leaving their vote void or by invalidating it). Moreover, there are more than 1.5 million youngsters and 0.5 million adults who have not even enlisted themselves on the electoral register. Although the Chilean political class has become alarmed by the increased political indifference among the population, there are observers who explain this phenomenon as just being the consequence of the high levels of political and economic stability existing in the country, as is the case in most western democracies. What we generally can observe in the entire Latin American region is that the disenchantment with democracy has not resulted in the adoption of anti-system attitudes, but has rather strengthened the general mood of apathy and depoliticism.

The future of Chile's neo-liberal model: final remarks

'There is nothing more successful that success itself.' This seems to be the secret for the consolidation of neo-liberalism in Chile. While throughout the rest of Latin America a never well-defined 'neo-liberalism' is daily blamed by angry protestors for practically everything what is wrong in their countries, in Chile the developmental project based on neo-liberal guidelines has achieved maturity after almost 30 years of application and seems to be consolidated. Today Chile is the most dynamic and stable economy in Latin America and the prospects for the near future are definitely positive. But, even more importantly, the current developmental model has managed to acquire a broad political support among the most important political forces in the country. Today, after more than five years in office, the popularity rating of President Lagos is above 60 per cent, and both the economic model and Chile's international commercial policies are unchallenged by the major social and political actors in the country. The daily images from neighbouring countries of economic and financial crisis and social anarchy have

strengthened even further the resolute disposition of Chileans to protect their country and society from similar turmoil. At the same time, the knowledge that Chile constitutes an exception to what is the rule in the region, have enlarged the awareness among the political class in general and the population in particular that the country is following the right path.

Those social and political forces that supported the former regime of General Pinochet (representing almost 40 per cent of the population) also support the economic policies of their opponents, the current Concertación governments, because they see the neo-liberal system as their own product. Within those social and political forces that support the Concertación governments, a large majority supports the current developmental model. Those within the government (particular those from the Socialist party) who have not totally accepted a system which in fact is a heritance of the past military regime have become known as the 'auto-flagelantes', as they are continuously involved in self-criticism and do not spontaneously celebrate all the successes achieved by the Concertación governments since the restoration of democratic rule in 1990.

In the years ahead, further technocratization of the policy-making process can be expected. The Chilean economy is integrated in the world system, and the country has ratified prestigious commercial agreements with Canada, the United States, Mexico, South Korea and the European Union, and a free trade agreement with Japan is expected in the near future. Chileans have become accustomed to hearing complex, technical accounts from governmental technocrats who give explanations of the advantages and the prospects of any new international agreement reached by the Chilean state.

Since the restoration of democratic rule in Chile the concept of democracy has lost much of its participatory aspect in relation to the decision-making process. Instead, the Schumpeterian view of democracy, in which democracy is conceived merely as a method by which citizens reserve the right to decide by whom they will be governed through elections in which various elites compete for the electorate's vote, is beginning to be tacitly accepted in practice. Moreover, we see that today the use of traditional methods of civil pressure and protest (such as property seizures, unauthorized street protests, politically motivated strikes, etc.) are generally considered by political elites as illegitimate acts and are stamped by the media as old fashion or even as pre-historic. Negative collective memories about the populist past, profound changes in the political culture of major left-wing sectors, and the relative

success of the neo-liberal model have allowed the almost unchallenged ascendancy of technocrats in the governmental circles.

The task for the Concertación democratic governments is to undertake profound changes in the social and cultural realms, removing the potential basis for future social discontent, by addressing problems of poverty and inequality within an essentially neo-liberal framework where direct distributional policies are not an option.

Note

1 For competing interpretations on the expansion of neo-populism in Latin America since the 1980s; see Dornbusch and Edwards 1991; Weyland 1996; Cammack 2000; and Demmers *et al*. 2001.

4

Neo-liberalism in the Russian Federation

Hans Oversloot

1 January 1992: the Union of Soviet Socialist Republics had ceased to exist. Its demise can be attributed to a number of causes, but the attempt to 'liberalize' both its economic and its political system was certainly one of the most important. The liberalization of politics and economics under secretary-general of the Communist Party of the Soviet Union (CPSU) Mikhail Sergeyevich Gorbachev since about 1986 entailed nothing less than the attempt to disentangle politics and economics and to create at least semi-independent spheres for political and economic activity.

Gorbachev himself was never a neo-liberal and even his conversion to social democracy came only after he had stepped down as secretary-general of the CPSU and president of the USSR. Nevertheless, it was under his rule that neo-liberalism gathered strength through reforms in the political and economic spheres and was accompanied by a weakening of the state's effectiveness in preserving the formal order, whether as a socialist, proto-capitalist, one-party or proto-multi-party state. Liberalization in the (redefined) economic sphere occurred as individual labour and, somewhat later, cooperative labour which was not preordained in the economic plan (as was the activity of state firms and old-style cooperatives), were redefined as befitting a socialist economy and were made legal. In the political sphere, one can say that for the first time in nearly 70 years of Soviet history a space for politics proper was being created under the heading of *glasnost* (the policy of 'transparency', or, literally, 'voice'). There was the beginning of a *re-emergence* of politics: open dissent, open controversy between segments of the population, among the (political) leaders, between leaders and segments of the population.

Gorbachev is praised and blamed, in almost equal measure, for initiating only minor economic changes and minor political reforms. He should rather be praised (or blamed) not only for failing to foresee the perverse

consequences of these reforms but for letting them get out of control and for his *inertia* at the critical juncture when he still could have taken charge. As is argued in this chapter, by the time the main neo-liberal reformers, including Prime Minister Yegor Gaidar and technocrat Anatoly Chubais, together with the infamous Harvard advisory team and Jeffrey Sachs, stepped onto the scene, a new framework of private interest and state–business relations was already beginning to emerge and setting the framework of power within which the reforms would be located.[1] By the early 1990s it had become clear that the central task was no longer breaking up the old Soviet political and economic system, but, rather, reigning in the unconstrained system of oligarchy that had emerged. It was a task that the reformers were unable to perform. Instead, the construction of the market state was ironically left to the revitalized state apparatus under Putin.

The rise of private interest

Gorbachev aimed for 'democratization' under one-party rule (a broader, more *Menshevist* party so to speak), with society refocused on realizing a form of redefined socialism within the Union framework. Socialism was to be revitalized and redefined by making room for individual and collective (cooperative) enterprise, thereby tapping unexploited human resources, and by making state enterprises more responsive to consumer demand and less dependent upon direct control by bureaucratic hierarchies. However, the softening up of the regime and the opportunities – including the opportunities for abuse – offered by the Law on Individual Labour Activity (1986), the new Law on Cooperative Enterprise in the USSR (1988) and the Law on State Enterprise (1987) – led to an overall economic decline and a substantial growth, not reduction, of the black, grey or otherwise coloured economies (Silverman and Yanowitch 1997; Oversloot 1990). Opportunities opened up for some individuals to partake legally, but more often illegally, in the 'de-statization' (*razgosudarstvlenie*) of the economy – later termed 'spontaneous privatization' – in which many of those who could helped themselves and close family members and friends to major parts of the moveable and immovable wealth of the Soviet Union. Public property, 'socialist property', was taken under control and seized by individuals and groups of individuals who treated these assets in some respects as private property without having a legal title to it.

Access, political trustworthiness and reliability, inventiveness, unscrupulousness, self-righteousness, energy and many other personal

and impersonal qualities and attributes helped some to thrive in these new surroundings and reduced others to dependency and despondency, especially as the socialist welfare system was simultaneously withering away. In this 'spontaneous redistribution' of property some categories of people flourished. Some were entrepreneurs in the (formerly) black or grey economy (economies) who were tested 'organizers' and were among the first to occupy 'new territory'. Another category is the 'red barons', the Soviet-era managers of large state enterprises who now invented all kinds of ways to expropriate major chunks of state property without effective oversight, and without lower-level functionaries and ordinary workers being able to prevent them. Part of the explanation of how the socialist USSR was so easily transformed into a capitalist *Russion Federation* (RF) is that these pillars of the former political and economic structure had given themselves a head start in preparation of the new societal structure (Oversloot 1996). A major part of the old (economic) elite 'committed' itself in this way to a new societal structure, as they had little to expect and even much to fear from a political and economic reaction or 'counterrevolution'. In this last sense too, this 'Russian revolution' was a revolution from above and not from below.

Another *sector* of the population who made themselves comfortable in the murky political and economic situation of the late 1980s and early 1990s was the top-level and mid-level *Komsomol* (the Communist Party's youth organ). They made the most of a time when police, *prokuratura*, and the whole repressive apparatus of the (former) Soviet state was disoriented and in disarray. In a way it was a period of 'lawlessness' during which no one could be accused of acting illegally, as some of the winners would later claim. These former *Komsomol* members were young and often energetic. They had access to working capital and ready access to buyers and sellers in the 'old economy' and to decision makers in the party bureaucracy, they were ambitious, and they were as political or a-political as was socially desirable and economically profitable; they were (political) cynics, who would otherwise have made it, be it less fast and less profitable, as the 'new men' in the previous regime.

There was, furthermore, a professional-criminal element that saw new opportunities for whatever trade, deal, trick or service (including the kinds of offers one cannot refuse) promised interesting returns – continuing their careers in the dark, but more often now walking in and out of the shade, sometimes presenting themselves as ordinary businessmen, craving public recognition, searching the limelight and making political friends. Members of law-enforcing agencies, secret services and (other) specialized police and semi-military services also, somewhat belatedly,

offered their protection services, their expertise in checking on the background of employees and business partners and the background and creditworthiness of clients, and cashed in on their access to all kinds of information. Often they functioned as (the strong arm of) a protection racket themselves, providing a *krisha* (literally 'roof', i.e. cover, protection) against other interested parties, not seldom against other extortionists. Sometime these servicemen made a transfer to the private sector while maintaining close contact with their former colleagues, sometimes making private money using and abusing their service position and/or military rank. There was (is) is a tremendous variety of doing business in this sphere too, sometimes part of the 'private earnings' was used to be able to go on in an official capacity: to buy the fuel and the hardware (like new patrol cars and computers) which the state-as-employer did not provide, as well as to make up for pitiful salaries and overdue payments.

Neo-liberal policy and the rise of the technocrats

After the unsuccessful August 1991 *coup d'état*, RSFSR (later RF), President Boris Nikolaevich Yeltsin effectively neglected the USSR's 'superstructure' and took charge of the RSFSR as a sovereign and independent state. Yeltsin had been elected in June 1991 in contested direct elections with an impressive majority of the votes. He now took it upon himself to head the state as both president and prime minister, and was granted the right to do so by the Congress of People's Deputies and Supreme Soviet of the RSFSR. As a *soviet* it claimed to represent the people's total powers, to which the president should be subservient. Yeltsin left the actual care of much of the economy in the hands of deputy Prime Minister and later, from June 1992, acting Prime Minister Yegor Gaidar, and to Anatoli Chubais in the period 1991–96 and to several other recent converts to the Chicago-School.

Gaidar was replaced by a less reformist-minded *apparatchik* Viktor Chernomyrdin in December 1992, but Gaidar would remain an important figure and many of his and of Chubais's associates would continue to play an important role in further developing, pushing for and executing the new state policy of privatization. Their headquarters (or war room) for quite some time was the State Committee of (State) Property (*Goskomimushchestvo*), which operated relatively independently from the Council of Ministers and from Premier Chernomyrdin. President Yeltsin made it characteristic of his regime to be able to choose to direct the country's economic policy either via the government or via

(departments of) the (separate) presidential administration, or to let government and presidential administration both act in quite uncoordinated fashion (Cf. Shevtsova 1999). The purpose of this way of working was clearly to remind everybody constantly that they were dependent upon (the person of) the president.

The overall purpose of Gaidar and Chubais's team was simple: speedy *razgosudarstvlenie*, the transfer of state property into private hands. The economic reformers were, not inappropriately, called liberal Bolsheviks.[2] This was a highly ideological undertaking by a band sensing that they represented an unpopular minority under political cover of a (still) popular state-president, who felt it was their task, their mission, to replace the failing, dying economic regime by a new (market) order based on private property, thereby helping the development of democracy even if that required acting against the wishes of the majority of the people. In fact, the reformers were not preoccupied with economic *structure*, as they assumed that a self-regulating market was all the 'structure' that was required and as they were inclined to assume that privatizing of state property and organizing a market economy were close to doing the same thing. They were preoccupied with (i) ownership issues (juridical title to economic goods: private was good, collective or state bad); and (ii) at least theoretically, with money matters, in that they favoured immediate price liberalization in order to help shock the sick economy into convalescence.

Regulation of money-volume, on the other hand, was not in the reformers' domain; Viktor Gerashchenko, the director of the Central Bank of Russia, was not under deputy/acting Prime Minister Gaidar's control. The 'lax' monetary policy of Gerashchenko was blamed for some of the economic mishaps during the neo-liberals' reign, which overall they considered and still consider a tremendous success. The primary concern of the majority of the Supreme Soviet and later of the State Duma and the primary concern of the leading politicians, including Yeltsin, was to help people (to help voters) survive the shock of transition by keeping the numbers of unemployed as low as possible, if need be by a very lax ruble (credit) regime and continuing for the time being state subsidies to failing firms.

Chubais and his associates hurried to use the remnants of state power and state authority to privatize as much state and other socialist property as fast as they could to make sure that the people that mattered would gain a material interest in the continuation of the revolution and would buttress and help the new system (Freeland 2000). Too great a dispersion of assets might not have been optimal for the development of the

new economic order, but popular capitalism would help provide the democratic political support for the economic transformation. The reformers were convinced that the policy of de-statization must go on and had to be pushed through even if the policy of (re)distribution in its conception or in its implementation would fail to meet obvious tests of honesty and fairness. Moreover, they thought that they should hurry to 'structure' the process of 'spontaneous privatization' ('catch-as-catch-can'), or *prikhvatka* (claiming and establishing ownership by effectively warding off other pretenders) trying to make it somewhat fairer and useful rather than preventing it totally.

Anatoly Chubais was sufficiently well connected to ensure that the US pressured the IMF to be extraordinary lenient towards Russia (Cf. Wedel 2001). This benign assistance to Russia on the part of the IMF may have been forthcoming without Chubais's intervention anyway, but the presence of Jeffrey Sachs and of other members of the Harvard Advisory Group, and the easy access of high level US policy makers to the 'liberal economic technocrats' in Yeltsin's reformist regime, notably to Chubais and Gaidar, undoubtedly contributed to a sympathetic environment in the design of policy. Sachs and other American neo-liberals worked with their Russian counterparts, including the influential Swedish economic advisor, Anders Åslund, making the economic and political transformation of Russia very much an international neo-liberal affair. Internationally oriented as Gaidar and Chubais and their Russian co-reformists were, they nevertheless helped keep the sale of Russia's state assets closed to foreign banks and other interested buyers. As a result the 'new rich' were originally 'native' players. However, a number of these very same players were to complain later about Putin's regime's hesitance in providing access to Russia's (investment) markets to their foreign partners and business associates.

A voucher-privatization program was launched in October 1992 (Blasi, Kroumova and Kruse 1997). It promised to each and every citizen of the RF an equal 'drawing right' on the accumulated wealth of the people of nominally 10,000 roubles – a sum which at the time, in cash, would pay for half a pair of boots. In fact, much less of Russia's 'socialist property' was distributed via voucher privatization than had initially been intended. Many of the most profitable and most promising enterprises – in gas, in oil, in ferrous and non-ferrous metals, etcetera – were kept outside of the voucher-sale. Some of the most valuable of these jewels in the crown were to be 'sold off' in 1996 in the loans-for-shares deal, about which more later on. Moreover, the actual purchasing power of the vouchers appeared to be highly dependent upon not only

the understanding of this simple-but-complicated scheme, but much also depended upon the actual place of work and on other attributes providing access to (information about) actual voucher-sales. Managers of profitable or potentially profitable firms, or of state enterprises otherwise richly endowed, were in a position – legally,[3] but also beyond the law materially – to make much more of their 10,000 roubles per voucher, and of additional vouchers purchased by them, directly or via middlemen, than most ordinary workers were, let alone pensioners and others who had no place of work. Voucher-investment funds appeared, but quite a number of them proved to be fraudulent. Voucher privatization was in fact much less egalitarian than the nominally equal value of 10,000 roubles per voucher per person suggested. Income inequality and property inequality grew enormously in the late 1980s and early 1990s, and voucher privatization contributed substantially to this growing inequality (Silverman and Yanowitch 1997).

Fortunes were made especially by those who had or who acquired access to political power, especially to the head of the executive, the president of Russia, or less rewarding, but still financially interesting, to the heads of the executive branches in the 'subjects of the federation', be they called mayor (of Moscow), governor, president, or otherwise.

As in many countries in the West, but more emphatically so in Russia, businessmen considered the state to be, in many respects, their enemy: to take from the state was considered morally commendable. In this respect there was an almost perfect match of the neo-liberal reformers' ideology and the businessmen's basic instinct. To try to profit from the state or to profit *via* the state (evading 'the market', bypassing competitors) was, 'of course', (also) good business. In this respect the neo-liberal reformers' ideal of a self-constituting and self-regulating market was thwarted by private entrepreneurs: businessmen might hate the state, but seek its acquaintance – because they are in it for the money, not for the market-game. The heads of the executive branches, especially the RF president, and key figures in their administration could do wonderful things for privileged businessmen. For example, they could grant licenses to import or export certain products tax-free, guaranteeing enormous returns. The mere license to export crude oil, i.e. the right to buy at domestic prices and sell at world market prices (and cash in on the difference), could be worth millions (of US dollars). The license to import tobacco or to import alcohol without having to pay import duties could make one rich instantaneously. In other ways too cooperating with representatives of the state could be profitable. The decision to place

incoming public monies of, e.g., the custom services in an account of a particular private bank was highly advantageous to that bank, providing it with working capital and (otherwise) giving it a head start in the 'real market competition' with other banks. It should be noted that such relationships were generally political in nature and not related to any superior performance by particular banks (Freeland 2000: 117, 125; Hoffman 2002; Remnick 1997: 158–214; Solnick 1998: 119–121).

The triumph of oligarchy over markets

In 1996 market reformers also forgot about the market and acted most emphatically to support business, not in any general sense but exclusively in favour of those businessmen or bankers who were willing and able to provide the financial and organizational backing for Yeltsin's re-election campaign. (From the point of view of the reformers, more specifically of Chubais, this was *force majeure*: One had to help save the revolution from the communists. If no action was taken, Gennady Ziuganov, leader of the Communist Party of the Russian Federation (*KPRF*) – the largest political party by far – would quite probably become the new Russian president.) The loans-for-shares deal, originally promoted by Vladimir Potanin, supported by Boris Berezovsky and 'sold' to the president by Anatoly Chubais, made half a dozen wealthy people very rich indeed (Hoffman 2002; Blasi, Kroumova and Kruse 1997; Freeland 2000: 260–83).

In essence, the deal was simple. The central government (including the RF president and his apparatus) was short of money, and Yeltsin was very unpopular in the beginning of 1996. Elections were due in June 1996. The state was in need of money to pay for salary arrears and pay for social benefits to help raise Yeltsin's approval rating, and to pay for Yeltsin's re-election campaign. (Formally, the state was not supposed to pay for Yeltsin's political career ambitions.) One of the many reasons for the state having cash-flow problems was that it had placed the monies of several of its services and departments on accounts of a number of privileged private banks – who were now willing to lend money to the state in exchange for the deposit of shares of some of its most valuable enterprises, which shares were to be put on the market by these banks if the state would not have paid its debts by 1 September 1996. It was clear to all concerned that the money would not be repaid, as the loan was needed for spending money for the good of the incumbent's campaign. The oligarchs, as they were commonly called, participating in this deal, supported the re-election campaign via their hold on television,

in the magazines and newspapers they co-owned, and by putting 'their' best men at their own expense (among whom Chubais) at Yeltsin's disposal. They did all this to ward off the serious danger of a *KPRF* take-over, which could cost much of their present wealth and their business prospects (not because they were democrats at heart), and to make a lot of money in the process.

After Yeltsin's victory the oligarchs gained quite easy access to both the government – Vladimir Potanin, the majority shareholder of Norilsk Nickel after finalization of the loans-for-shares deal, was co-opted as first deputy prime minister – and to the presidential administration. In what has been called the 'sale of the century' (Freeland 2000), the bank-owners who had lent money to the state and who had received shares of valuable state enterprises as collateral, had become de facto owners of these enterprises. They had not really marketed these shares: other interested parties had been warded off. Spending in total a few hundred million dollars they received assets worth many billions of dollars.

Until 1996 the oligarchs had never spent much time trying to influence the world of politics, or displaying much attachment for any political ideology. They had been sensitive to changes in the political situation and the possibilities this entailed for undertaking business; some of them remained shy of the public scrutiny, but some of them, notably Berezovsky and Potanin, now presented themselves as bulwarks of democratic power, opposed primarily to the communist forces of darkness. (Some years later, in exile, Berezovsky launched *Liberal* Russia.)

As businessmen in the sphere of the economy proper, the oligarchs could not be held politically accountable. As politicians and high-ranking bureaucrats they were more prone to public scrutiny, by journalists, among others, less so by oppositionist forces in parliament. Could they justify having made millions upon millions of dollars, amassing fortunes in no time, while tens of millions of compatriots hardly could make ends meet, and with about one-quarter to one-third of the population beneath the poverty line?

The new rich were and are stupendously self-righteous (Freeland 2000: 117, 125). Each and every one of them – i.e. as far as they have spoken out on this issue – appears to be absolutely sure he had earned his money – or, rather, that he deserved his fortune. Some have proposed they have received less than their fair share, that they have been short-changed by their peers. In this attitude, the vast discrepancies in wealth that have characterized post-Soviet Russia in the previous decade simply sorted out those of the finest quality from the less energetic or intelligent.[4] The reformists' overall justification for privatization was

that, in the end, the new economic system would prove to be much better than the old one for almost all citizens of the republic. The anti-egalitarian traits of the new, developing system were supposed to be either indispensable for the betterment of the economic position or inevitable, considering that the transformation process for economic and political reasons could not take long.[5] They were never clear whether the growing inequality of income and property was *required* to make the transformation process a success and establish and 'self-propulsion' of the new system, or that inequality was a largely unintended but inevitable – because of the pace of the process – side-effect of the transformation. Russia as a whole, not just the happy few, it was argued, would prosper. Russian nationalist sentiment was invoked in two ways. First, it was proposed that Russians would profit from the new economic system, and second, that business opportunities should be restricted to Russians and state property should not be sold to foreigners. These were clearly not liberal economic convictions.[6]

Here, remarkably, the position and the interests of the (aspiring) oligarchs coincided with the position taken by the Russian communists. The communists and (other) nationalists have helped the 'national' economic elite to exclude non-nationals from taking part in several rounds of state property sales. This cost the state coffers of the RF many billions of dollars and seems to have been exclusively to the advantage of their own, national oligarchs-to-be. National sentiment has not extended to the operation of Russian-owned business. Capital exports in the 1990s were between ten and twenty billion dollars a year and remain at levels of some six to eight billion dollars per year, in the 2000s. These exported riches cannot be touched. In this way the oligarchs make themselves partly independent from Russia's political rulers. The other way of ensuring some political space for themselves is to become Russia's political masters themselves or at least to ensure that their interests also become those of their political masters. RF president V.V. Putin has made his sensitivity to the political manoeuvres of oligarchs abundantly clear and it is this factor that has led to much of the confrontation between oligarchs and the state, as we shall see.

Very few of the *biznizmeni* themselves who appeared since the late 1980s were neo-liberal, free-market idealists or ideologists. They desired to enrich themselves but they were not principled fighters for a free market. The competition implied in the free market was precisely what many of them tried to evade, some by offering unique services or products, by entering an uncontested market niche, some by cooperating with the existing or prospective political powers who could (in the

near future) help them to overcome or evade competition, including by means of physical violence and threats. Most of them were not sticklers for the rules of fair play, with the general excuse that laws were either absent, or were not enforced, or were mutually contradicting, or that the state and state organizations were predators and parasitical. Considerations of fairness and acts of loyalty were restricted within very small groups of close associates and business partners, family and friends. In this anarcho-capitalist and neo-Darwinist reality no limits were set to the degree of exploitation or humiliation of 'others' (Remnick 1997: 199; Volkov 2002).

Restoring the state: Putin and the new public/private accord

Neo-liberalism in the RF was not only to develop into an 'anti-statist' form dominated by oligarchs, it became ruthlessly anarcho-capitalistic to the extent that it used the state's atrophying institutions to transfer whole chunks of it to enterprising individuals. At the start, however, neo-liberalism in Russia was purer than neo-liberalism under Margaret Thatcher in the UK or under Ronald Reagan in the USA, in that it was not connected to any specific claims to national or God-given values. Russia's reformers, of course, could not claim that their 'ideology' reflected the country's identity because their job was not to build upon the past but, rather, to destroy it. To put it differently, neo-liberalism in Russia was purer in that it was not combined with neo-conservatism. As argued by Akram-Lodi (this volume), political practice in the UK and the USA was much less anti-state than the political rhetoric of the time may have suggested. In fact, much was done to restore the capacities of the central state (as opposed to local state authority, especially in England), among others in order to be able to transform the country (UK, USA) according to the neo-liberal *cum* neo-conservative ideas the leader cherished.

In Russia the moral high ground (or lowlands, if morality is be regarded the domain of losers) in the early and mid-1990s was left to 'the communists'. However, in Russia's political and financial centre, Moscow, the communists were relatively weak for several reasons, one of which was without doubt the presence of Mayor Yurii Luzhkov who possessed the managerial style of the *khozhyaystvennik*, the quasi-apolitical style of someone who is quite clearly the boss. The state power of the city of Moscow was never marginalized, and entrepreneurial activity in Moscow has remained highly dependent upon the city-administration's,

i.e. the mayor's, cooperation. Moscow city's authority was 'personalized' and concentrated in Luzhkov's hands, who, as a 'true boss', saw to it that his Muscovites were better provided for than other Russians, with social benefits paid on time, with much rarer and shorter wage payment delays in both the state and private sectors than was the case elsewhere, and with Moscow's infrastructure, roads, street lighting, public transport, etcetera, in better shape than elsewhere. He also saw to it that those 'who did not belong in the city', non-resident beggars, 'Caucasians' without residential permits, were physically removed. However, Moscow's prosperity did not of itself dictate this policy and this managerial style of the *khozhyaystvennik*, of the patron, of 'the boss' (Hoffman 2002).

In Moscow there could be little doubt as to who finally decided whether a business, or an enterprise, had a place in the city. The market was fine, capitalism was excellent, but only to the extent that it fitted the mayor's general – and sometimes quite specific – ideas of what would fit his city. In Moscow big business had to help finance Luzhkov's pet projects, and it was clear that the mayor would not hesitate to use his democratic state powers to make life miserable and business impossible for those who thwarted the community's interests as he defined them. Luzhkov, who had started out as an engineer and town hall official with special responsibilities for the registration of new-style cooperatives in the late 1980s, was much in favour of enterprise, but never a devotee of the free market and has never idealized democracy. Luzhkov represents a special – but important – partnership between (local) government and business; he is very much pro-business, to the extend that he can rely upon business to be supportive of his larger political ('managerial') plans and ambitions. He, so to speak, allocates 'the market' its proper place. It is also important to note that his 'bossy' style is probably much more in tune with popular sentiment as to the proper roles of politicians, business and markets than neo-liberalism is.

The neo-liberals, the reformers and the new rich were keen on what the state and its functionaries could do for them and for their businesses, but all the rest of 'politics' was not of their interest, at least not of interest to the majority of them until 1995–96. One could say that, in a way, Luzhkov had made politics his business. Moscow was his business, his household (*khozhyaystvo*), which he ruled and regulated, which he managed. Private enterprise and market forces were allowed, even stimulated, to operate in the city but as he saw fit. The ideal of the neo-liberals was a minimal state. For Luzhkov (not theorizing about it, but showing it) the state, the larger business of the state, the state 'in person', was not to be made subservient to private business and to

market forces, but was there to lead and to be served too, and was allowed to profit from business and market, directly and indirectly (Hoffman 2002).

Luzhkov's 'care of the state', of Moscow city, but also his stance in national politics, struck a chord with a larger electorate, and when he, in the absence of a 'party of power' directed from the Kremlin, set up his own political party, 'Fatherland' (*Otechestvo*), and moreover forged a coalition with executives of other 'subjects of the Federation' (Yakovlev of Leningrad, Shaimiev of Tatarstan, and others) organized in 'All Russia' (*Vsya Rossiya*), making *Otechestvo-Vsya Rossiya*, he could be expected to become the king-maker. Yevgeni Primakov was *O-VR*'s candidate for the presidency, elections for which were then still expected to take place in June 2000. Russia seemed to be headed for a new content and an new style of politics and a new kind of public–private relationships. How exactly Primakov would have restyled Russian politics we, of course, will never know. It is hard to imagine that he would have been able to copy Luzhkov's style, transferring it to the national, i.e. federal level, as it is quite hard to image that the provincial heads – who would have helped to bring him to the top – would have been willing to bend down and accept a much more prominent role of the central state at the expense of their personal leverage over their 'fiefdoms'. Would the central state only be granted a more prominent role in Russia's foreign policy, associating more closely with some of the former Soviet Union's allies? International relations had been Primakov's occupation most of his career. In any case, it is almost certain that neo-liberalism would not have been the dominant, or even a prominent ideology in Primakov's regime. It would have been pro-business, but not quite pro-market, and it would most probably have reinforced elements of neo-corporatism.

However, before this was to happen, Vladimir Putin, newly appointed prime minister in August 1999, reached prominence as the forceful leader of Russia's fight against Chechen terrorism. A support organization, *Edinstvo*, was set up for him by the Kremlin, i.e. by prominent figures in the presidential administration and members of the cabinet, to help secure a strong pro-*future*-presidential representation in the December 1999 State Duma elections. They succeeded in doing exactly that, to the extent even of humbling *O-VR* and their presidential hopeful Primakov. President Yeltsin resigned prematurely on New Year's Eve 1999 leaving prime minister and from that moment on acting president Vladimir Putin in an excellent position to win the presidential elections, rescheduled now to take place in March 2000. Other candidates were caught unprepared and in fact no other candidate could credibly expect

or even hope to win the presidency. No second round of voting was even required. Putin did not have a formal election programme, which he said would merely serve as an invitation to criticize his ideas, but on 29 December, while still only prime minister, a programme in fact was published under the title 'Russia at the turn of the millennium'. From this statement of principle, and moreover from what he has said and done since then, it has become very clear that Putin is not first of all a democrat, nor a free marketer, a neo-corporatist, a neo-orthodox, or a crypto-communist. Putin is first of all a *gosudarstvennik*, a 'statist', with *gosudarstvennichestvo* ('statism') as his overarching ideology (Putin 1999; Cf. Sakwa 2004).

A *gosudarstvennik* takes pride in the state. *Gosudarstvennichestvo* is a *pragmatic* overarching ideology (and ideological *krisha*, one could say). It is pragmatic in the sense that it will embrace whatever ideology is required, or would be suitable or opportune to elevate the state, and is able to strengthen the awareness of people that they are subject to and thereby partake in a respected, important, and if need be awesome state, a state that counts, that shines, and impresses others. To regain this respect military force is not enough (anymore); the regime must deliver in eudemonic terms (Holmes 1993). It must be able to offer (the opportunity) of a materially prosperous life to at least a substantial part of the population, but not necessarily to all. Private ownership, private individual and private corporate ownership of the overall majority of the means of production are now required to realise such prosperity.

Putin is clearly aware of this and has left no doubt as to his intentions to substantially reduce the state's stake in enterprises which are still state-owned, in iron-smelting, iron and steel production, in non-ferrous metals, in communications, the energy sector, especially the production and distribution of electricity. Although the break-up and privatization of Russia's United Energy Systems (UES) has been delayed repeatedly, and Anatoly Chubais, UES's general manager, would probably have wanted the process to have taken much less time, but neither the president himself, nor prominent members of the presidential apparatus and the cabinet, have advocated a reversal of the privatization principle. What is obvious under Putin, more than it ever was under Yeltsin, is that private enterprise should fit and follow the general directions for economic development emanating from the country's political *and* economic centre. Putin has brought the central state back in, claiming for it a general directive capacity. Putin has promised to limit the role oligarchs to their proper sphere, the economy, i.e. he has promised to undo them as oligarchs: economic weight should not spill over into national

(i.e. federal) politics. He has not promised, nor is he secretly intending, it seems, to roll back the policy of privatisation or to clip the very rich.

Such a roll-back seems the less likely as long as neo-liberal German Gref heads the most important departments in government and Andrei Illiaronov remains one of Putin's most important advisors. Moreover, while the least well off are doing a little better under Putin, the relative difference between high- and low-income groups has *not* been reduced. He has not attacked the rich because they are rich. Instead, he has allowed others to crack down on exactly those oligarchs who have been openly defying his directions. For example, the tycoon, Vladimir Gusinsky, whose NTV station had criticized Putin's policies, was met with sudden financial demands from its major financier, Gazprom, the natural gas giant in whom the state is the largest shareholder. Gusinsky was forced to sell his shares in NTV. Car dealer and oil tycoon, Boris Berezovsky, and Mikhail Khodorkovsky, who is the majority shareholder of Menatep, owner of Yukos (one of Russia's largest oil companies, which produces and sells as much oil as the whole of Algeria) and other oligarchs have had to face the consequences of their hubris, i.e. the president's wrath, too. Some parts of the state apparatus have seen fit to act against a selected number of oligarchs, in support of the president's position (and no doubt with his blessing too), while the president himself can use the "separation of powers" argument to distance himself from these actual events.

Some oligarchs have defied the president, by claiming to be king-maker, by suggesting the president is dependent on their media support, by showing political aspirations above the level of provincial head of the executive, by priding themselves on being able to bypass, neglect, ignore and humble the state and its highest servants. What is now demanded of even the richest citizens is that they respect the state and its supreme servant. Being silent on the state, not confronting and not provoking it or its supreme servant, is already an important sign of respect, but what is expected of major corporations (and their leaders) is more: they should be willing and should show to be helpful in fulfilling Putin's (other) political promises. Corporations, it is argued, should take their social responsibilities – *i.e.* their responsibilities before the state – more seriously, not only paying decent wages on time, but making an overall contribution to the upkeep of society, to its material infrastructure, apart from more diligently paying (reduced) taxes, of course.

It is interesting to note that in 2004 the RF Audit Chamber found much to comment on and complain about when going through the business of Roman Abramovich, an oil tycoon, in 'his' province of

Chukotka, or rather when auditing the province of Chukotka, and finding firms and organisations, owned, directly or indirectly by its governor Roman Abramovich 'all over the place'. However, he was not severely criticized, and has not suffered serious consequences, apparently because he was considered not merely by far the most important employer, directly and indirectly, but also a benefactor to the people of Chukotka. His relations with the presidential apparatus, and assumedly with the president, have remained excellent since he sided with the president against his former business-associate Berezovsky.[7]

The Yukos case is special in that Mikhail Khodorkovsky and his business partner Platon Lebedev have not been allowed to leave the country and, after having been arrested in October 2003, have actually stood trial on numerous charges of fraud, embezzlement and tax evasion. In order to pay part of $23 to $28 billion of back taxes, Yuganskneftegaz, Yukos's largest production association, was sold, for $9 billion, to state oil company Rosneft (Lavelle 2004).

Khodorkovsky's defence has tried – at least partially successfully – to make the Yukos affair into a case of Khodorkovsky defending ownership rights, freedom and democracy against vengeful authoritarianism. Another major shareholder of Yukos, Leonid Nevzlin, speaking from Israel shortly before the date set for the verdict, 27 April 2005 (later postponed to 16 May), threatened to go public about the high level corruption and all kinds of deals struck between businessmen, politicians and top-level bureaucrats that had taken place, if Putin – the judicial system – indeed were to convict his (former) boss, comparing Putin's regime to Stalinism (*Jerusalem Post* 26 March 2005; *Mosnews* 21 March 2005; *Mosnews* 18 April 2005). Nevzlin's further comments and accusations also indicate a split among Russia's tycoons, some of whom tend to side with the political powers that be to further their own business interests, as one other and very important way to compete with other businessmen.[8]

However, the constant and ongoing struggles between Putin and the oligarchs now began to attract criticism from international sources, including the neo-liberal press and Western governments. It was alleged that property rights and other core market values and institutions were at stake.[9] Putin was sensitive to this and sought to hose down the issue. In his yearly message delivered before the member of the Federal Assembly of 25 April 2005 president Vladimir Putin urged tax collecting bodies to refrain from 'terrorizing' business, although they do have to see to it that taxes are being paid properly, and they cannot simply 'pass by' violations of fiscal law (Putin 2005).

Populism and the market state

Markets were not only to be accommodated to the institutional interests of the state and its officials, it was to be accommodated within a growing populism being developed to provide another pillar for the rise of Putin and the reconstitution of the Russian state itself. In this context, President Putin has committed himself to an economic programme for Russia intended to bring the Russian population a per capita income comparable to that of present-day Portugal by 2013. A decade with an annual growth of GDP of 7 per cent is required to realize this – and according to macroeconomic indicators Russia in 2005 is well on its way. There has been substantial growth of the economy since the financial crisis of summer 1998, when the Russian state was insolvent and banks were unable to return private deposits. This crisis forced upon the government, as well as upon the major Russian banks, a more sensible financial regime. The crisis, which brought the rouble down, had the additional beneficial effect of making home-products much cheaper to buy and therefore more attractive to produce.

However, the benefits of economic and financial policy under Putin notwithstanding, it is the high price of oil and natural gas which has contributed much – if not most – to realize impressive growth rates of up to much more than 5 per cent, uninterrupted since 1999. Oil and gas account for well over half of Russia's hard currency earnings, and it is estimated that over half of GDP growth in the last couple of years must be attributed to the effects of oil sales at record prices. The RF state authorities have made it clear that the state and the public at large should benefit more from these sales than was previously the case.[10] A state reserve fund has been set up and is rapidly being filled to help compensate (the effects of) the possible future drop of oil prices and major producers and exporters of oil, gas, and metals, are under more scrutiny of state financial (and other) authorities than before to help ensure that they do contribute to the state, via taxes and otherwise.

That Putin is not a stickler for neo-liberal orthodoxy was also made clear when he publicly enticed German Gref to revise economic policies and predictions to 'forecast' that the number of Russian citizens with an income below subsistence levels would be halved shortly. Gref evidently would have preferred to go for maximum overall growth, as a purer neo-liberal position would have demanded, taking less account of distribution of income.

There has been a 'trickle-down' effect: larger groups of the electorate in the lower-income categories have started to notice a positive effect on

overall growth as well, even without the more explicit 'redirection of income' that Putin asked for. However, inequality of income, let alone inequality in property, is very large in comparison with Soviet times, large in comparison with even present-day Western Europe, and in fact more comparable to differences in South America and the USA. 'World trends' in the last decades have been towards larger inequalities, but Russia (as is also seen in some other post-communist countries) has raced to the top of the listing of most unequal societies and has been 'holding strong' in that position. In a way Russia is an odd mix of Europe and America in that egalitarian ideas still have many adherents in Russia, while the economic elite despises demands for egalitarian policies and prides itself on being a true meritocracy. In his critique of the oligarchs Putin has struck a chord, and advocating that care should be taken of a major, less prosperous, part of the population has put him in direct competition with the communists (KPRF), enabling him to seize part of the KPRF's social programme. Acting from a position of strength, he is more likely to be able to deliver than any KPRF leader can hope to be. It is perhaps no surprise that the KPRF split in the summer of 2004, and two factions now claim the name and banner of the KPRF. A major reason for the fall out was one faction's desire to now support Putin, while the other faction wanted to hold fast to its position as opposition party.

Politics in Russia is, among many things, a spoils system. Putin's rise to power was followed by appointments to senior positions in the executive branch of tens – maybe even hundreds – of his former KGB colleagues and of officials and politicians he had worked with in St Petersburg. What we see here is a *Seilschaft*, not unlike the career communities of Soviet times. The present 'party of power' has assembled quite a number of supporters in the State Duma after the December 2000 elections: *Edinaya Rossiya* ('United Russia'), the most important pro-Putin Party, had already brought the leading *former* oppositionist politicians under its banner, but the 'left-wing oppositionist' *Rodina* representation is also Putinist. *Rodina* ('Motherland') was set up to compete with the KPRF on both nationalist and socialist issues, not to oppose, but to support the president. And then there are 'independents' supporting Putin – LDPR parliamentarians, and even a number of KPRF delegates.

Part of the explanation of Putin's quite remarkable popularity – for many years close to 70 per cent and of respondents in polls have expressed their support of Putin – is undoubtedly his 'statism', but also his stance as a communitarian who takes care of the many who were neglected under Yeltsin. The 2004 reform of the social benefit system

has put this image at risk for the fist time, and in a telling way. The recent Benefits Bill arranges, among other things, that benefits in kind, like free public transport, subsidies for rent and utilities, healthcare benefits, different sets of benefits in kind for different categories of people, like invalids, war veterans, the poor and elderly, totalling some 40 million people or more, are to be replaced by cash payments or monetary benefits. In reaction to this, Putin's rating fell to less than 50 per cent for the first time in years. Quite a number of people expect that the cash payments will not take inflation and price rises fully into account. Moreover, in its initial set-up these monetary benefits were to be paid by provincial and city government bodies, and were no longer to be financed by federal government, as the benefits in kind had been. Federal government would be 'unburdened' (made leaner, and indeed meaner), at the expense of local governments, who were not allocated the finances to pay for the obligations imposed upon them by central government. Thus the Benefits Bill in its original form represented the neo-liberal dimension of Putin's regime and opened the door to the conflicts inherent within the reformist position.

Putin's government did not retract the Bill in reaction to popular protest as was expressed on the streets as well as in Putin's declining popularity rates. However, the fact that tens of billions of rubles extra (about 10 billion in US dollars worth) of federal money were allocated to provinces and cities to help sustain the 'monetarized' benefits system reflects the ongoing limits that populism places upon the neo-liberal agenda in the reconstitution of the market state.

Conclusion

The construction of the market state in Russia is being undertaken in a complex struggle between forces of neo-liberalism, statism and populism, all of which are variously accommodated within the Putin regime. Popular sentiment and democracy, even 'managed democracy', sets limits to at least the tempo of implementation in full of the neo-liberal programme in Russia. Attempts to 'modernize' Russia's welfare system testifies to that, and also the hesitant 'opening up' of Russia to market forces. Some of Russia's business leaders are now ready for such an opening where they stand to gain from foreign partnerships, while others argue that Russia may be overwhelmed by foreign interests. This 'nationalist' position in the business community strikes a chord with wider nationalist sentiment in Russia and it is not surprising that playing to 'great-Russian sentiment' is also a feature of Putinism which exhibits

some parallels with Thatcherism, in that it combines neo-liberalism with nationalism, not to say jingoism. Enforcing 'market internationalism' upon Russian society may well cause a nationalist backlash which may prove hard to manage by 'the president's men'. If the neo-liberal programme threatens to leave too many 'voting people' unprotected by 'the state', the president may be prompted to 'manage' Russia's democracy more intensely, or to dilute the liberal programme and spend more on social benefits, health care, education, or even to do both. What is certain, however, is that any policy that is fundamentally inimical to private business and markets in general is now no longer likely.

Notes

1 Yegor Gaidar was an economist converted to market liberalism in the mid-1980s and who served as deputy prime minister from November 1991 and then as acting prime minister under President Boris Yeltsin until December 1992 at the height of the 'shock therapy' process. Anatoly Chubais, also an economist, headed the State Property Committee, which worked out the privatization programme and was instrumental in getting the shares for loans deal accepted by Yeltsin. He was first deputy prime minister from November 1994 until January 1996, appointed again after Yeltsin's re-election until dismissed in March 1998. He is now director of Russia's energy monopoly, Unified Energy System.
2 They were called that by sometimes admiring, sometimes more skeptic observers and adversaries, but never by communists, who, for obvious reasons, were less inclined to use, to abuse, the name Bolshevik in this way.
3 In many cases managers had a privileged position in the privatization of their firm in that a relatively large – as compared to the common workers – percentage of shares war reserved for (voucher-)sale to management (Blasi, Kroumova and Kruse 1997).
4 Freeland (2000: 111) quotes trader and banker, Mikhail Friedman as saying, 'We were absolute savages' in recalling the early days of Russia's capitalism. In fact, savagery in business has not entirely disappeared since the early days of so-called 'bandit capitalism'. Several hundred assassinations in business circles are still registered every year. See also Hoffman 2002: 438–41; Remnick 1997: 208.
5 Friedrich Hayek, Milton Friedman and other liberal economists were mentioned by the reformers as their sources of inspiration. John Rawls was never invoked and was never even mentioned, although he could have been, in order to help justify at least part of their actions for an audience less given to ultra-liberal ideas (Hoffman 2002: 78–99).
6 Yegor Gaidar agreed to exclude foreign competitors in an early stage of the reforms in order to create a native political power base in Russia for his economic reforms. Moreover, in so doing he warded off 'nationalistic' criticism of those who were later to support the LDPR and the KPRF.

7 Abramovich was also fiercely criticized, not by the Audit Chamber but by Luzhkov, for having invested so heavily in a *foreign* soccer club, Chelsea football club, instead of investing in soccer in his own country. Roman Abramovich, major shareholder of Sibneft, and a former associate of Boris Berezovsky, for a long time has kept a very low profile, and he has never criticized Putin, nor meddled in 'politics', albeit being Chukotka's governor.

8 Nevzlin pointed at Kremlin Chief of Staff Dmitri Medvedev, Finance Minister Aleksei Kudrin and to Roman Abramovich as major culprits behind the tax authorities' and (other) law enforcement agencies' actions against Yukos and its major shareholders.

9 Examples of such criticisms can be found in the *International Herald Tribune* of 10 February 2005 in an article by Anders Åslund (http://www.carnegieendowment.org/publications/index.cfm?fa=print&id=16508); in an article by William E. Pomeranz published by Washington's Center for International Private Enterprise (accessible via www. cipe.org) on 11 March 2004, and in an article by Chris Weafer, chief strategist of Russia's Alfa Bank, accessible via News Agency PRIME-TASS (http://www.prime-tass.com/news/show.asp?topicid=65&id=376931).

10 A part of the public is negatively affected by high world market prices of oil. Among others because of Russia's WTO aspirations domestic prises for oil will rise too, with an effect on other energy prices (bills for heating and electricity), which part of the population will not be compensated for via employment opportunities, salaries, lower individual taxes, etcetera.

5

Corruption and Neo-liberal Reform: Markets and Predatory Power in Indonesia and Southeast Asia

Vedi R. Hadiz

Introduction: the context of regime change

The spectacular fall of Soeharto in 1998, following three decades of harsh authoritarian rule in Indonesia, caused many observers to anticipate the gradual advent of a new benign period of democratic governance (e.g. Liddle 2001) operating in a more or less liberal vein. The enabling conditions were largely thought to be technical in nature, especially in early debates about post-Soeharto Indonesia. These included the resurrection of political party life, 'good' election laws, and various legal and institutional reforms related to governance and the market (Budiman, Hatley and Kingsbury 1999). Indonesian democratization was also to result in what is called 'good governance' – revealing the influence of currently fashionable World Bank-inspired parlance – under which democratic and accountable government would go hand in hand with a 'transition' to an economy based on the workings of the free market and the rule of law. From this point of view (see Harris 2003: 33–4), once market mechanisms took hold, Indonesia would slowly but surely rid itself of the perennial problem of endemic corruption.

Nevertheless, institutions – and the ways in which they actually function – are contingent on the outcome of contests between wider social forces and the interests embedded in them (Hadiz 2004a). Thus, the more fundamental task is to understand the specific constellation of power and interest and the way that it affects the forging of political and economic regimes, especially following major crises. In understanding

the dynamics of corruption in post-authoritarian Indonesia, for example, it is important to recognise that the salient forces that have shaped the new framework of governance are those that were at least partly nurtured under Soeharto's New Order. The consequence is that social, political, and economic change is now being presided over largely by predatory interests incubated under the New Order, but that have learned to secure their ascendance through new and shifting alliances within a more fluid and democratized political environment (Robison and Hadiz 2004).

What has emerged in Indonesia, therefore, is not a framework of power that might be associated with idealized notions of liberal forms of democracy or of a 'rational', free market, but something more akin to a form of political and economic governance powered by money politics, bossism, thuggery, and violence, as exists in Thailand or the Philippines (Arghiros 2001; Sidel 1999), two other major post-authoritarian Southeast Asian societies. Useful comparisons could also be made with such cases as that of post-Soviet Russia, where IMF-supported privatization policies facilitated the rise of powerful groups of political gangsters, especially in local governance, and several other post-Soviet republics, where predatory and criminal elements have transformed the state itself into a vast criminal enterprise (Harris 2003: 59). In such contexts, the market is driven by corruption, which thrives not only in an unbridled fashion, but also in a form that is likely to be highly decentralized and unpredictable.

The current essay is underpinned by the idea that variants of neo-liberal thinking that have dominated the discussion on corruption in Southeast Asia and elsewhere provide inadequate attention to the crucial factors of politics, power, and interests. An approach that instead emphasizes these factors is offered, with particular reference to Indonesia's recent and ongoing experience with administrative decentralization after 2001. The latter policy, part of the package of neo-liberal reforms that were supposed to bring Indonesia closer to the ideals of 'good governance', has facilitated instead the entrenchment of a far more decentralized, but certainly no less pervasive, system of corruption than existed during the rigidly authoritarian New Order of Soeharto.

Neo-liberals have thus become increasingly alarmed by these developments. In a recent report on Indonesia, the World Bank (2003a: ii) warned that corruption might seriously obstruct Indonesia's path to good governance. It declared that corruption:

> … represents a significant threat to a successful political and economic transition for Indonesia. By undermining the formal rules

> and the key organizations which are charged with safeguarding them, and by destroying people's faith in these institutions, democracy itself is threatened.

But Indonesia is not unique – much-vaunted decentralization policies in the region, such as in Thailand and the Philippines (e.g. ADB 1999; Rood 1998) – have also failed to cut off the roots of corruption and of predatory politics. Such failures also have to do with the prevailing configuration of power and interests in these societies. In the case of Indonesia in particular, this would not be the first time that aspects of neo-liberal reform packages have produced completely unanticipated outcomes. The celebrated liberalization of Indonesia's banking and financial sectors in the 1980s provided the means for an array of politically connected, predatory business groups to feed their ferocious appetite for domestic and international expansion, ultimately resulting in the particularly dire manifestation of the Asian economic crisis in Indonesia (Robison and Hadiz 2004). The warning signs were long ignored – as Harris (2003: 14) notes in his major study of international corruption, the once-heralded privatization of Indonesia's banking system merely allowed the Soeharto family to use it as a 'bottomless personal current account'.

Interestingly, the World Bank now seems to be grappling with its past record of heavily supporting and praising the Soeharto regime. A recent report, for example, ponders why the New Order was so successful in delivering high economic growth over such a prolonged period in spite of pervasive corruption. The first part of the answer given was a rather standard, uninsightful one: that the 'scale of corruption' was not at a level that necessarily deterred investment. The second part of the answer was more interesting, for it constituted almost an admission of past errors in judgement (World Bank 2003a: ii; see also Chapter 1). It declares that the New Order's previously lauded success was actually:

> overstated since it came at a high cost in terms of weak and corrupt institutions, severe public indebtedness through mismanagement of the financial sector, the rapid depletion of Indonesia's natural resources, and a culture of favors and corruption in the business elite.

It should be noted, however, that the World Bank continues to maintain that (2003a: 150):

> … corruption is rampant across all public expenditures, and it may be plausible to argue that funds not financed by donors are subject to

> much less scrutiny and controls. Corruption is equally rampant in activities that have nothing to do with donors such as the collection of taxes and customs duties, which the public already sees as among the most corrupt activities. At the end of the day, the Government of Indonesia is responsible for the effective and efficient use of all expenditure routed through the budget.

As we shall see, in spite of this ambiguity in dealing with the entanglement of the World Bank and other neo-liberals in Soeharto's rabidly predatory regime, anti-corruption is high on the agenda of governance reform in Indonesia.

Corruption as a development problem

Corruption, broadly defined as 'the use of public office for private gain in ways that contravene declared rules' (Hamilton-Hart 2001: 66), or more specifically 'political corruption', defined as 'the abuse of entrusted power by political leaders for private gain, with the objective of increasing power or wealth' (Hodess 2004: 11; also see Harris 2003), remains a major global concern for development planners and actors. The main concern for neo-liberal reformers in particular is that 'corruption affects investment and economic growth' and 'influences governments in choosing what to spend their money on'. Corruption also 'discourages investment, limits economic growth, and alters the composition of government spending, often to the detriment of future economic growth' (Mauro 1997). Moreover, it 'undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends'.[1] Although a recent report proclaims that there have been solid results in eradicating corruption in 26 'transition economies' in Europe and Central Asia (Gray, Hellman and Ryterman 2004), endemic corruption in the world is clearly still seen as one of the major obstacles to promoting 'transitions' to modern, market economies.

In this connection, over the last decade or two two broad approaches to corruption can be identified as having emanated from the literature on neo-liberal reform and market transitions. These have mainly, though not exclusively, emerged from international development organizations – in particular, the World Bank. The first approach might be termed the 'market-based approach', which relies more or less on the assumed natural capacity of free markets to inhibit corrupt practices. Unsurprisingly, this approach tends to downplay the role of the state. The second

approach is the 'institutions-based' one that relies on the construction of broad policy and institutional frameworks to inhibit corruption in order to facilitate optimally the workings of the market. Here the state is clearly brought back in, although there is also a lot of emphasis on the role of civil society movements. The latter approach is the one currently favoured by international development organizations, including the World Bank and the International Monetary Fund.

The market-based approach appeared to be in the ascendant in the neo-liberal development literature of the late 1980s and part of the 1990s. It was well-represented, for example, in a major World Bank report on providing assistance to developing countries in their fight against corruption that appeared as late as 1997. The authors of the report suggest that 'economic policy reform should be a main pillar of an anticorruption strategy in many countries', for they believe that deregulation and the 'expansion of markets are powerful tools for controlling corruption' in themselves (World Bank 1997a: 39). Furthermore, they argue that:

> Markets generally discipline participants more effectively than the public sector can, and their power to do so is closely linked to sound economic policy. Enlarging the scope and improving the functioning of markets strengthens competitive forces in the economy and curtails rents, thereby eliminating the bribes public officials may be offered (or may extort) to secure them. (World Bank 1997a: 39)

However, it has become increasingly clear to neo-liberals that blind faith in markets does not constitute an effective strategy against corruption. Markets themselves need to be facilitated by an institutional framework that can ensure 'good governance' practices. Much of the recent literature, therefore, has been concerned with developing the institutional frameworks for corruption eradication. Thus the World Bank anti-corruption website lists the following key elements of an effective anti-corruption strategy: following: (a) increasing political accountability; (b) strengthening civil society participation; (c) creating a competitive private sector; (d) institutional restraints on power; and (e) improving public sector management.[2] This position is replicated in numerous policy documents and other publications of recent years. A recent World Bank-sponsored compilation on fighting corruption in Asia (Bhargava and Bolongaita 2004), essentially recommends a fairly uniform set of policy measures geared towards strengthening institutions tasked with curbing and monitoring corruption, while also inviting civil society

participation. Clearly, in the case of Asia, the emphasis on constructing anti-corruption institutional frameworks is a direct response to the Asian economic crisis of 1997/98, which neo-liberals have tended to portray as being triggered fundamentally by corruption and market-distorting policy choices.

Many observers have noted, however, that for decades prior to the Asian economic crisis the World Bank was inclined to 'tolerate' corruption in Indonesia. Dick (2002: 71) reminds us that the World Bank used to dismiss widespread Soeharto-era corruption by euphemistically, and perhaps quaintly, referring to it as 'common local practices'. Wee (2002: 6) argues that the Bank believed that the growth generated by the New Order 'outweighed any leakages from graft', resulting in loans of about US$25 billion over 32 years, in spite of the clearly rapacious and predatory nature of the Soeharto regime. The view is perhaps repeated today in MacLeod's (n.d.) assessment that in spite of rampant corruption, the Soeharto regime remained 'effective' – in the sense of doing what was needed to achieve economic growth.

Indonesia, nevertheless, is not alone with regard to widespread corruption of aid-financed projects and programmes. Hanlon points out how World Bank researchers have concluded that the flow of foreign aid can in fact *encourage* corruption, and, moreover, that it has been found that some of the more corrupt governments in the world actually obtain more foreign aid. In Mozambique, he argues, the donor community has tolerated gross corruption on the part of key policy-making actors as long as they have appeared to 'put in place market-friendly policy changes' (Hanlon 2004: 747).

It is also interesting to note, as Harris (2003: 56–61) does, that it was widely argued by a range of authors writing in the 1960s and 1970s that corruption offered some societal benefits. Gunnar Myrdal, for example, suggested that corruption allowed 'enterprising companies' to break through the shackles of bureaucratic regulation. In much the same vein, Samuel Huntington argued that corruption, at least in small doses, was conducive to the modernization process, because it attacked traditional and therefore counter-competitive practices; in other words, corruption was just another way of discovering how to compete in the marketplace in transitional societies. This view would have been supported by the economic rationalism of Huntington's 1960s contemporaries like Nye, who thought that corruption at least led to capital formation (albeit usually among dictators) – though of course there remained the problem of how that capital was to be invested. Nevertheless, the consensus now, certainly among policy makers and development experts, is that

corruption creates ills such as serious market imperfections, institutional inertia, distortions in investment patterns, as well the criminalization of the state. Thus, corruption is, by definition, inimical to the sort of 'good governance' that according to neo-liberals would allow markets and individual creativity and dynamism to prosper.

Whatever the actual short- and long-term social and economic effects of corruption, both the market and the institutions-based approaches that have dominated neo-liberal thinking over the last two decades pay inadequate attention to the crucial factors of politics, power, and interests. Thus, the theoretical premise of their analyses of both the prevalence of corruption and also its eradication is faulty. The now-voluminous institutions-based literature remains distinctly unable, if only less so than the strictly markets-based literature that preceded it, to deal adequately with the broader issue of power configurations conducive to – or prohibitive of – corruption. Both sets of literature, albeit in slightly different ways, essentially view the process of politics as an 'intrusion' into the rational workings of the marketplace. What distinguishes the institutions-based approach is its emphasis on the construction of institutions that would *insulate* the market from power and politics. But this assumes the existence of a benign and enlightened group of technocratic experts that are beyond self-interest, which is rather *unrealistic*. In Indonesia, 'rational', western-trained economic technocrats were important players for long stretches of time during the lengthy period of rule under Soeharto, but they were part of the overall framework of predatory power – providing technical expertise – and never developed the social base to mount a sustainable and coherent challenge in the name of neo-liberal reform.

An approach that underlines the importance of factors otherwise virtually ignored in neo-liberal accounts of corruption – which tend to descend into narrow, technical, problem-solving exercises – is advanced here to examine the nature of corruption in post-Soeharto Indonesia. As in Thailand and the Philippines – where electoral politics provides an arena for contests that are in large part decided through money and violence ('goons and gold' as they say in the Philippines) – the dividing line between legitimate and corrupt or criminal political activity continues to be blurred (e.g. on Thailand see the essays in McVey 2000), although the patterns and dynamics of corruption in Indonesia have changed. During the long Soeharto era, a highly centralized, authoritarian government ensured there was a certain degree of predictability about the corruption that fed into a greatly personalized, patrimonial system of rule centred on the presidency itself. Thus, even as investors in the

1990s complained about Indonesia's resultant increasingly 'high cost' economy, they were still able to thrive due to alliances with powerful members of the New Order capitalist oligarchy. Subsequently, power has become much more diffused and decentralized, and thus also the patterns and dynamics of corruption, much to the dismay of domestic and international investors.

What both markets and institutions enthusiasts failed to anticipate adequately is the appropriation, if not outright hijacking, of the institutions of governance in post-Soeharto Indonesia, nationally and locally, by predatory interests mostly nurtured under the New Order and which have now reconstituted within the new democracy (Robison and Hadiz 2004). These well-entrenched interests will resist the development of technical measures to monitor and constrain corruption – what Dick (2002: 71–86) calls, with more than a hint of irony, the 'new frontier in social engineering' – in the absence of well organized and coherent anti-corruption social and political coalitions. This is in spite of growing efforts of some civil society-based organizations to monitor corruption in post-Soeharto Indonesia discussed below.

Attacking corruption: economic crisis and neo-liberalism

Indonesia has a well-deserved reputation for being one of the most corrupt countries in the world. In fact, in its 2001 survey Transparency International listed Indonesia as the joint-third most corrupt country in the world and it was joint fourth in the following year,[3] although an 'improvement' was 'achieved' in 2003 when Indonesia occupied 122nd position out of the 133 countries surveyed.[4] Other countries in the region fared considerably better: Vietnam came in at number 100, the Philippines number 92, Thailand number 70, and Malaysia a 'respectable' number 37. Of course, Indonesia regularly scores poorly in similar surveys over the years carried out by other institutions. In 2000, for example, a survey by the Hong Kong-based Political and Economic Risk Consultancy (PERC) showed that expatriates working in Asia viewed Indonesia as the most corrupt country in the continent (*Kompas*, 23 March 2000). Not surprisingly, Indonesian government data shows that the state lost some Rp 22 trillion (US$2.35 billion) in nearly 1200 corruption cases noted from January 2002 to April 2004 (*Jakarta Post*, 18 June 2004).[5] This should be considered a conservative estimate, as it is impossible to know how many cases go unreported around the sprawling archipelago. It must be remembered, however, lest misplaced nostalgia takes over, that Indonesia hardly fared any better under

Soeharto: in 1998 Transparency International ranked Indonesia at number 80 out of 85 countries surveyed (Wee 2002: 5).

In spite of being able to project a façade of technocratic benevolence to some observers, Soeharto's New Order was in fact the epitome of the predatory state in Asia. Coalitions of politico-bureaucratic and business interests consolidated and became entrenched during Soeharto's rule, appropriating state power and policy. The influx of foreign investment and aid at the beginning of the New Order, the oil booms of the 1970s, and the economic deregulation and selective privatization policies of the 1980s and 1990s, all provided powerful alliances of business and politico-bureaucrats with ample opportunities to use and abuse economic policy and public resources (Robison and Rosser 2000). Hijacked by vested interests incubated by the state, economic deregulation did not prohibit corruption; on the contrary, it allowed it to flourish further in numerous sectors of the economy (see Robison and Hadiz 2004). Clearly, the current emphasis on constructing anti-corruption frameworks among neo-liberals is a direct response to the Asian economic crisis of 1997/98 that had a particularly serious effect on Indonesia, and which they blame on Indonesia's weak regulatory institutions as well as systemic corruption.

Thus, the IMF, in particular, came to make strong demands for institutional reform at the height of the crisis. Between 1997 and 2000, the Indonesian government was compelled to sign 16 Letters of Intent, outlining reform programmes, in return for a US$41 billion bailout package. Much emphasis was placed on the recapitalization and restructuring of Indonesia's devastated banking sector. However, this process was also hijacked. For example, the Bank of Indonesia became enmeshed in scandals involving the misappropriation of liquidity funds that were designed to help ailing banks. The State Financial Audit Body found that Rp 84 trillion of the Rp144.5 trillion allocated to banks up to January 1999 had been misused by bank owners (*Kompas*, 5 August 2000). An institution called the Indonesian Bank Restructuring Agency (IBRA) was established in January 1998, tasked with dealing with assets seized from major in-debt business conglomerates. In theory, this could have broken the back of a number of powerful, politically connected New Order-grown conglomerates and paved the way for a fundamental restructuring of economic power. However, IBRA came to be mired in endless allegations of non-transparent practices until its mandate expired in 2004. By hook or by crook, the conglomerates were able to forestall debt restructuring and to repurchase their own assets cheaply despite an official ban on the repurchase of assets by owners who had

not settled their debts (Hadiz and Robison 2005: 225–9). Although severely damaged by crisis, the conglomerates have, therefore, by and large survived.

Moreover, in spite of the dismantling of long-standing monopolies by institutions like Bulog, the state logistics body, and Pertamina, the state oil company – as outlined in the LOI's – these remain persistent sites of corruption. They are still important enough sources of potential funds for political parties and powerful political figures that competition for control over them can reach feverish levels. The judicial system has also been largely ineffective in deterring corruption – newly established commercial courts have been almost a total failure as the government lost almost every case it pursued in relation to bad debts (Hamilton Hart 2001: 75).

Why has this been the case? It must ultimately be understood that resistance to the neo-liberal reform agenda, which is seen in Indonesia as an external imposition, has taken place as an expression of a particular domestic configuration of power. Essentially, the fall of Soeharto in May 1998 marked the beginning of a new era characterized by the rise of parties and parliaments, and the salience of regional and local competition over resources. Nothing better symbolizes this change than the electoral processes of 1999 and 2004, which were both remarkably free. Equally important, however, is the fact that the system of economic and political patronage centred on Soeharto himself also unravelled, forcing its constituent elements to reposition themselves within a new, decentralized framework of power. As Robison and Hadiz (2004) suggest, many sections of the old New Order elite, at both national and local levels, have now reconstituted themselves through new alliances, typically expressed politically in the form of political parties and parliaments.

But newly prominent players have also surfaced, including those that had only occupied the lower layers in the extensive but centralized network of patronage that characterized the New Order. At both national and local levels, the range of interests vying for control over institutions of the state and the resources they command is extremely varied, though in general they draw on a similar pool of predatory interests. These include the regime's former political fixers/operators, petty predatory state bureaucrats and 'gatekeepers', aspiring local business groups, as well as a range of political gangsters, thugs and members of newly prominent civilian militia (Hadiz 2004a). Henk Schulte-Nordholt (2002: 51) reports that there are about thirty militia organizations in Indonesia, with an alleged membership of 700,000 people. In addition, the military still cannot be discounted as a player – indeed, local military commands

now appear to be well positioned to strike economic and political deals with a degree of autonomy from Jakarta that they have hardly enjoyed before (Mietzner 2003). Nico Schulte-Nordholt (n.d.) in fact proposes that administrative decentralization has facilitated corrupt practices on the part of local military commands, particularly in resource-rich areas such as Kalimantan and Papua. This is just one way in which administrative decentralization – a central part of the package of post-Soeharto governance reform – has facilitated the emergence of a new dynamics of locally-based, decentralized corruption.

Decentralization and corruption

The erosion of central state authority in Indonesia following the fall of the authoritarian New Order regime meant that it was necessary to accommodate local demands for greater autonomy in the management of local resources and in the exercise of economic and political power. Clearly, there were regional expressions of discontent throughout the long Soeharto era that were often simply suppressed by force. Jakarta's reactions to unrest in Aceh and Papua – and, previously, East Timor – are perhaps the most extreme examples of this. In spite of fears of Indonesia's balkanization, the major source of conflict between central, provincial and local authorities is more generally not about possible secession from the republic, but about matters of jurisdiction over local economic resources and institutions. There is also little practical agreement about which level of government makes the final decisions on investment applications, a situation that leads to great uncertainty in the business community. All of this has very tangible and concrete implications for the development of competing rent-seeking, predatory networks outside Jakarta.

Law no. 22 1999 on Local Government and Law no. 25 1999 on Fiscal Balance between Central and Regional Governments were the concrete responses to local and regional aspirations at a time when overtly repressive New Order-style responses were no longer possible. In many ways the legislation was a concession to the demands of increasingly assertive local elites that needed to be placated in the immediate post-Soeharto period in Indonesia. Law no. 22 provided the basic framework for the decentralization of powers and responsibilities from Jakarta to the regions. The more contentious law no. 25 outlined the financial aspects of decentralization, elaborating on such issues as local, provincial and central government revenue bases. Though many local officials continue to dispute the extent to which the laws were ever implemented, in

theory if not so completely in practice, the authority of the central government was severely reduced as a result of the new legislation.

It should also be remembered that administrative decentralization – which Indonesia officially embarked upon with much fanfare in January 2001 – is linked conceptually by many neo-liberals with the overall process of addressing the problem of corruption. More generally, the hope is that decentralization would help to produce a more accountable, transparent, participatory, and also market-friendly form of governance. This follows on the broader neo-liberal literature on decentralization and good governance. To Fisman and Gatti (2002), for example, an essential question is whether decentralization would result in greater or less corruption, and the more efficient allocation of resources.

However, the Indonesian experience demonstrates that the decentralization agenda can be appropriated by well-entrenched corrupt, predatory forces at the local level (Hadiz 2004a). Rather than creating the conditions favourable for investment, the newly decentralized and unpredictable form of corruption has instead helped to foster business uncertainty. Thus, a major player in the real estate sector in East Java with close links to political parties complains of how local parliamentarians as well as city and *kabupaten* officials required bribes to ensure the smooth running of business, and of numerous new local levies with dubious legal bases – all contributing to higher costs.[6] No less than Vice President Jusuf Kalla Kalla, himself a prominent businessman, has warned local administrations against adopting policies of increasing – potentially misappropriated – local revenue through levies on business. He was responding to a study that found that 30 per cent of these would lead to 'high-cost economies', as well as a survey in which '24 per cent of 5184 respondents in 214 regencies and cities complained about business distortions' caused by local government edicts. Significantly, the survey also showed that businesses had to bear the burden of illegal payment demanded by 'security forces, the courts, social organizations and mobsters' that amounted to '6.81 percent of total production costs', which many will regard as a rather conservative estimate (*Jakarta Post*, 21 March 2005).

Furthermore, rather than obviously encouraging participatory politics in the broad sense, decentralization has been conducive to the emergence of newly powerful predatory local bosses who are developing obvious interests to insulate themselves from anti-corruption initiatives emanating from Jakarta (Hadiz 2004b). Thus, given subsequent developments, it is useful to emphasize that decentralization as understood in the original 1999 set of legislation provided greater autonomy to

authorities at the subprovincial level: the *kabupaten* (regency) and *kotamadya* (city or town).[7] The pendulum has since apparently swung back to the level of the province, as indicated in the revised law on decentralization produced, after much controversy, towards the end of 2004. In the parlance of officialdom, it was not only the *daerah tingkat II* (secondary regional level) that was to be empowered now but also the *daerah tingkat I* (basically, the provinces), thereby potentially undermining the economic and political ambitions of local politicos that had been growing steadily.

In many ways, this change reflects a potential new impulse towards some recentralization of power, which would again have implications on the dynamics and mechanics of corruption, especially at the subnational level. At the level of policy thinking, the change clearly represents a partial reversal of previously largely benign assumptions about the link between local and good governance. Following the belief expressed in much of the World Bank-inspired literature,[8] the decentralization process in Indonesia had been rather uncritically promoted as being supportive of local creativity, dynamism and self-reliance. The Jakarta-centred process of decision making during the Soeharto era was also frequently cited in public discussion as being stifling of local creativity, besides resulting in the misidentification and mishandling of local problems and issues. Handing jurisdiction to local administrations was supposed to help remedy these problems. The more recent change in policy thinking is thus reflective of both misgivings about the actual performance of governance at the local level in Indonesia over the last several years, but also a setback for local predatory interests and coalitions that have been striving to carve out a realm of real autonomy from those that are positioned at the national and provincial levels (Hadiz 2004c).

Similar expectations about the outcomes of decentralization have previously been dashed in other countries in the region. In Thailand, for example, the 1997 Constitution stipulates a more decentralized structure of governance, in spite of the fact that power was never as centralized in Thailand under the military dictators as it had been in Indonesia during the heyday of Soeharto. In line with these stipulations, there has been a drive to create new municipalities, now endowed with greater power and responsibilities (Patpui 1999). As the Asian Development Bank put it, the aim was to: 'reconfigure the political, legislative, judicial and administrative machinery of government'. As in Indonesia, the expectation was that successful decentralization would make governance in Thailand 'more decentralized and participatory'. Thus, government

institutions at all levels were expected to be transformed into those that were 'more transparent, accountable and responsive' (ADB 1999: 7). But here too the ADB recognised the prevalence of a 'number of influential forces have a vested interest in the status quo', as well as 'the practice of vote buying in rural areas', and 'fierce bureaucratic resistance to the decentralization initiatives envisioned in the constitution, and widespread perceptions of corruption' (ADB 1999: 7). Interestingly, one ambition of the Thaksin government – representing the interests of a section of the Thai bourgeoisie that survived the Asian economic crisis (e.g. Pasuk and Baker 2004; Hewison 2003) – is to recentralize power by exerting control over local politico-economic alliances that particularly strived in the post-authoritarian period.

Similar problems have also been identified in the Philippines. Analysing the Philippines in the context of decentralization, Hutchcroft points to the existence of well-established political clans that continue to dominate the institutions of representative government, and to elections that are still tainted by money politics and intimidation. He also notes that 'the enormous expense of running for election serves as an effective barrier to the entrance of reformist forces into the political arena', and that 'many so-called new faces often retain strong connections to old centers of power' (Hutchcroft 1998b). Moreover, as in Indonesia after Soeharto, the fall of Marcos seemed to more clearly decentralize rather than to eradicate corruption (Harris 2003: 60).

The possible parallels between Indonesia and the Philippines, two societies where predatory coalitions run local political machineries, do not end there. In Indonesia today, local politicos have sometimes observed that only the rich will be able to win political office, offering the possibility of parties and parliaments that will become less ambiguously the vehicles for the distribution of the spoils of power among the wealthy – and ruthless – and exclude those unequipped to play the game of money politics, corruption, and thuggery.[9]

Harris has noted that where 'the state is corrupt so will liberalisation be'. Indeed, as is the case in countries like China, liberalization may 'multiply existing opportunities for corruption' as well as offer 'unrestrained possibilities of wealth accumulation' (Harris 2003: 62) by bureaucrats and criminals alike. It may be added to this that where predatory coalitions of power are ascendant, decentralization of governance as part of the neo-liberal reform package will not likely help to eradicate the problem of corruption, but instead complicate as well as exacerbate it.

Increasingly in the spotlight, therefore, are emerging patterns of corruption at the local level. Here corruption often relates to contests for

control over the local state machinery and resources and developing potential bases for localized predatory networks of patronage and protection. It has often involved misallocation of local government budgets for private gain, not the least being that of individual local parliamentarians, as several fresh scandals have revealed. In 2001, for example, it was estimated that 40 per cent of central government subsidies to the regions under a fiscal assistance scheme, less than one year after the official implementation of local autonomy, had been misappropriated by local officials (*Kompas*, 27 November 2001). Decentralization has also been accompanied by the proliferation of Thai- or Philippines-style money politics at election time.

One of the most notorious earlier cases of local money politics in the post-Soeharto era involved the election of the mayor of the city of Medan, North Sumatra in 2000, which involved the bribery and intimidation of scores of local parliamentarians (*Kompas*, 22 March 2000). Cases of elections and money politics were in fact to become quite commonplace. In the new province of North Maluku, the election of former Soeharto aide Abdul Gafur as governor was rescinded because of allegations of money politics (*Jakarta Post*, 25 April 2002). The election of another New Order stalwart, businessman Fadel Muhammad, as the governor of another new province, Gorontalo, in Northern Sulawesi, was also mired in controversy due to widespread allegations of money politics (e.g. Pabottingi 2002). In the bitterly contested East Java gubernatorial race of July 2003, rumours proliferated before Election Day, not least among local political operators, that one legislator's vote was valued in the billions of rupiah each.[10]

But it is at the level below that of the province that the electoral process tends to become particularly ugly and, frequently, violent. Thus, the election of the *bupati* of Sleman in Yogyakarta involved political kidnappings; and that of Karo, in North Sumatra, involved arson committed on parliament house itself; and that of Sampang, East Java, involved violent mass mobilizations as well as arson. In North Sumatra violence has even erupted over control of local party branches, typically characterized by the mobilization of paid thugs. The examples that can be given across Indonesia for this kind of political violence are virtually inexhaustible. Much of the violence and thuggery have involved civilian militia or 'youth' organizations with links to political parties – frequently inhabited by political gangsters. No doubt, the amount of money – and level of violence – which have often been deployed to secure local office in Indonesia in the post-Soeharto period demonstrates the degree to which they have become important in the development of

local predatory networks that sustain themselves through corruption and the abuse of public office. This author's own preliminary observations suggest that new laws governing local elections – whereby mayors and *bupati* will be elected directly by the electorate from mid-2005, rather than by local parliaments – will likely increase rather than decrease the already considerable cost of running a successful campaign for local office. In the current context, this has the potential to further induce the development and consolidation of a local political class in control of local political machineries and resources.

Control of strategic institutions, such as local parliaments, or particular commissions in local parliaments, or local government agencies, has proved important in the development of localized and diffuse networks of predatory power. This is perhaps best shown in the recent 'eruption' of cases of budgetary misallocation involving provincial and local legislatures. In a particularly startling case, which still represents a major deviation from the norm, 43 members of the West Sumatra parliament were convicted of misappropriating funds from the provincial budget (*Kompas*, 11 June 2004). Since then a large number of corruption cases involving local legislatures and executive bodies have been widely reported in the press (e.g. *Jakarta Post*, 24 July 2004; *Tempo*, 27 February 2005: 26–35). Decentralization has thus facilitated the rise of local coalitions with a growing vested interest to oppose 'good governance', while taking advantage of new rent-seeking opportunities that have become more readily available to them. The outcome is the sort of unpredictable corruption that is most unappealing to investors.

Current directions

Given the emphasis on creating institutions supportive of good governance and the workings of the marketplace, and the experience of the Asian economic crisis, one of the major aims of neo-liberal reform in Indonesia is now the eradication of corruption. Since the fall of Soeharto in 1998, a series of programmes have been implemented – typically with the aid of international development organizations – to entrench institutions and practices geared to combat corruption. These have included the promotion of such initiatives as the Partnership for Governance Reform, predominantly with the support of the World Bank. The Partnership, billed as collaboration between the international community and Indonesia, 'brings together' members of the Indonesian government, legislature, judiciary, civil society, the corporate sector, and the international community.[11]

After much delay, the Indonesian government has now notably installed an Anti-Corruption Commission, much in the style of similar commissions that had already been established in Thailand and the Philippines, where the eradication of corruption is also high on the official agenda (see Bhargava and Bolongaita 2004). The Indonesian Anti-Corruption Commission quickly garnered headlines in mid-2004 for investigating the case of alleged corruption by the governor of the troubled province of Aceh, Abdullah Puteh, who is an old Soeharto-era stalwart (*Suara Pembaruan*, 13 June 2004). It is noteworthy, however, that the Commission had earlier got off to a bad start. Its membership, which was determined by a national parliamentary commission, was composed of individuals widely viewed to have close links to the bureaucracy and to powerful political organizations. Indeed, Marsillam Simandjuntak, a former attorney general and political activist, whose candidacy was supported by many NGOs because of his reputation for integrity, failed to find a place in the Anti-Corruption Commission because of a lack of support from members of parliament (*Kompas*, 8 January 2004). Soon after taking office in October 2004, President Bambang Yudhoyono, a retired general, declared the eradication of corruption to be one of the main priorities of his administration. Interestingly, he has specifically pointed to illegal logging activities in places like Papua and Kalimantan in which the military – thus far virtually untouchable as far as corruption investigations go – has clearly been deeply implicated.

It is potentially significant that civil society-based anti-corruption organizations have also been emerging over the last few years. This development had also begun earlier in countries like Thailand and the Philippines (see Bhargava and Bolangaita 2004), where previous authoritarian regimes had been less successful than Soeharto in centralizing power and systematically disorganizing civil society. Among such organizations in Indonesia is the *Masyarakat Transparansi Indonesia* (Indonesian Transparency Society), a 'moral' movement whose membership includes some former New Order-era luminaries in government and business.[12] But more important, active, and confrontational has been Indonesia Corruption Watch (ICW), led by the former human rights and labour activist Teten Masduki, who has little faith in the government's new Anti-Corruption Commission.[13] It should be noted that ICW was a direct product of the *reformasi* movement of 1998, and was established by some prominent public critics and NGO activists. Furthermore, one of the more interesting developments in recent years has been the proliferation of local-level anti-corruption watchdogs in

the relatively short period of time since the fall of Soeharto. This is surely linked to the decentralization of both governance and corruption over the past few years.

Perhaps in the work of these organizations one can find the beginnings of the expression of a genuinely socially-rooted interest in the eradication of corruption. Thus, such organizations may turn out to be more important in the longer run should they be able to coalesce into a more coherent and effective political movement. Nevertheless, it needs to be noted that these organizations are powerless at the present time, though some of them are quite vocal. In addition to internal organizational deficiencies, they remain unable to broaden their social and political constituency – for example, by embracing large sections of the middle class – a situation that in many ways is a legacy of the New Order's systematic disorganization of civil society for three decades.

From this point of view, the pervasive and long-standing problem of corruption in Indonesia is not due to some inherent, immutable feature of Indonesian culture (e.g. Dick 2002; Hadiz 2004b), nor is it best described in terms of the underdevelopment of markets or the failure of institutions *per se* to facilitate the rational workings of such market. The problem essentially lies in the nature of the interests that have captured, appropriated, and ensconced themselves in the institutions of state power since the advent of the New Order, and that have now reconstituted themselves anew. The new framework of governance in post-Soeharto Indonesia continues to be shaped by many of these same interests, for which an effective system of meaningful and wide-ranging public scrutiny over predatory practices, constitutes no less than a fundamental threat. As Lindsey (2002: 19) reminds us, anti-corruption campaigns are both essentially ideological as well as political in nature and, therefore, so is resistance to them.

In the post-Soeharto context, predatory interests remain predominant in the military, political parties, parliaments and the civilian bureaucracy, at national, provincial, and local levels. Such interests have a considerable interest in blunting anti-corruption initiatives and in safeguarding the conditions that make possible the plundering of state coffers and the forging of illicit politico-business alliances. Though occasional victories may be had, real progress in combating corruption ultimately depends on successfully sweeping aside still-politically ascendant predatory coalitions (Hadiz 2004b). But this entails no less than a fundamental reconstitution of social and political power – an idea that is discomforting to most neo-liberals. Therefore, such observations remain largely peripheral in the voluminous neo-liberal literature on

corruption, on Indonesia and elsewhere in Southeast Asia, which remain fixated on notions of an intrinsically rational, power-neutral marketplace.

Notes

1 See The World Bank Group, 'Anticorruption', http://www1.worldbank.org/publicsector/anticorrupt/index.cfm.
2 See The World Bank Group, 'Anticorruption', http://www1.worldbank.org/publicsector/anticorrupt/index.cfm.
3 See Internet Centre for Corruption Research, http://www.gwdg.de/~uwvw/icr.htm.
4 See Internet Centre for Corruption Research, http://wwwuser.gwdg.de/~uwvw/downloads/CPI_2003.xls.
5 The total Indonesian national budget for 2003 was Rp 231 trillion. *Republika Online*, 12 August 2004.
6 Interview with Rusdiansyah, East Java branch of the Indonesian Real Estate Association, 16 July 2003.
7 It is possible that policy makers in Jakarta had calculated that smaller administrative units would have less of a realistic option of seceding from the Republic of Indonesia, given still existing – though arguably exaggerated – fears about the Balkan-style disintegration of the Indonesian nation-state (in spite of ongoing conflicts in Aceh and Papua).
8 See the World Bank's 'Decentralization Net' at: http://www1.worldbank.org/publicsector/decentralization/Different.htm.
9 Interviews with Akhyar Nasution and O.K. Azhari, both members of the Medan parliament for the PDI-P, respectively on 15 December and 20 December 2003.
10 For example, interview with Gatot Sutantra, a veteran local leader of a number of New Order-rooted 'youth' organizations, 18 July 2003.
11 See Partnership for Governance Reform, www.kemitraan.or.id.
12 See Masyarakat Transparansi Indonesia (see www.transparansi.or.id).
13 Interview with Teten Masduki, 14 June 2004.

6

Neo-liberalism and the Persistence of Clientelism in Africa

Graham Harrison

Introduction

If the neo-liberal project has met with varying fortunes and diverse outcomes as a global project, then a focus on sub Saharan Africa[1] serves only to highlight the complexities of neo-liberal 'roll-out'. Ostensibly, Africa provides a highly problematic context for the neo-liberal project: in the late 1970s, African economies faced conditions of extreme crisis, and many African states were barely succeeding in establishing a basic presence throughout their national territories. And yet it was into this world-region that international agencies, led by the World Bank and IMF, exerted immense pressure to promote neo-liberal reform. A quarter of a century on, these same agencies remain, much of the neo-liberal policy agenda remains, and the problems that African states faced in the late 1970s – *mutatis mutandis* – have not been resolved.

This chapter explores the processes that have led to this awkward denouement: a cohabitation of a strongly advocated reform platform with political and social dynamics that hardly fit the neo-liberal ideal (see Gamble in this volume). This is a story of a techno-managerial policy platform (Robison, chapter 1, this volume) that has incrementally enclosed the marketizing core of neo-liberal policy thinking in a series of more explicitly political postures. Whether this development represents a furtherance of the neo-liberal project, or its gradual dissolution, is very much open to question especially – as we shall come to see – as those states that have (relatively) succeeded in implementing neo-liberal foundations have relied on distinctly non-liberal forms of politics to do so.

This chapter will proceed as follows: having established some key features of African states, the next section will set out how the neo-liberal

project came to Africa, highlighting in particular the profusion of structural adjustment programmes (SAPs). Subsequently, we will identify the ways in which neo-liberal reform threw up a range of problems which the prevailing approaches to reform were incapable of understanding or dealing with. The tension between the bold neo-liberal project and its moderate and halting progress is explored in the next section, notably the introduction of a set of political innovations to neo-liberal policy reform – some acknowledged, others remaining opaque. The outcome of the 'politicization' of neo-liberalism has been an increasingly diverse set of 'neo-liberal experiences' on the continent. This only serves to underline the centrality of neo-liberalism's articulation with political processes to any understanding of its fortunes. Case studies in the next section reveal how those states ostensibly declared as (moderate) success stories have relied in important ways on clientelist politics to implement neo-liberal reforms. The chapter concludes with an assessment of the meaning of neo-liberalism's cohabitation with a distinctly non-liberal political logic.

African states

Any review of African states clearly gives one the impression of a region which poses significant problems for any champion of the neo-liberal cause. Two cardinal features of African states illustrate this: the prevalence of clientelist politics and the problematic nature of sovereignty. Before we proceed, I should add the caveats that whatever generalizations follow in this section, African states differ in as many ways as they resemble each other, and that a sketching of common patterns in African state politics is not to construct essentialisms about 'The African State' but merely to recognise that African countries have all shared in a broader African political history.

Clientelism

Clientelism is an umbrella phrase. It captures a variety of political strategies and processes, but what brings them all together is the use of state resources in exchange for political allegiance. This is hardly an 'African' politics: it pervades all parts of the world, even if it is re-named as crony capitalism, political favouritism, 'revolving door' politics, the politics of the pork-barrel and so on. However, in many African states, the employment of clientelist strategies is pervasive, to the extent that it becomes the principal defining feature of African states for some writers – for example, Bratton and van de Walle (2002) speak of a neopatrimonial

state. One of the most influential books on the African state, *The Politics of the Belly* (Bayart 1993), constructs an image of African state politics as one of Big Men and Small Boys, struggles over the resources of the state by elites, and the distribution of state patronage through affective networks. By and large, clientelism works through shared notions of kinship, real or imagined. Elites distribute resources to their home regions, their ethno-linguistic group, powerful families with which they have matrimonial links, and so on.

To identify the salience of clientelism is not to portray a rigid logic to state behaviour. Clientelism can mean very different kinds of politics: from the moderate preference of some regions over others in infrastructure investment to the 'terminal spoils' politics (Allen 1995) in which the state collapses under clientelist pressures. It might mean the active oppression of perceived opposing socio-regional networks (Nigeria), or the incorporation of new groups into a broader patrimony, which Bayart (1993) calls the mutual assimilation of elites. Clientelist politics can produce varying degrees of legitimacy within a broader population (Schatzberg 2001). Clientelism is not 'tribalism', a term which evokes notions of unchanging primordial divisions and allegiances, frequently attached to more or less explicit visions of a 'traditional' Africa which is outside some vaguely defined orthodox or 'modern' politics. Rather, clientelist politics is as modern as any other form of politics: it has globalized (through diasporas and licit/illicit trade networks), it has adapted to marketization, it has worked its way through constantly shifting patterns of social allegiance, and it has taken on a variety of intellectual references (socialism, nationalism, capitalism, patriarchy, chieftaincy, monarchy …).

Clientelist politics remains as a central feature of African state politics: it has pervaded the multi-party elections that western donors expected to yield a 'new wave' of liberal democracy on the continent; it has produced much wrist-wringing – again largely by western donors – about corruption; and it has been associated with the emergence of global illicit trade networks (Bayart, Ellis and Hibou 2000; Chabal and Deloz 1999: 79). Furthermore, clientelism has become involved in many aspects of neo-liberal reform, as we shall see.

Sovereignty

Commenting on the first decade of independence in Africa, Walter Rodney (1972: 31) remarked: 'today in many African countries foreign ownership is still present, although the armies and flags of foreign powers have been removed'. Once we accept a certain amount of rhetorical

flourish in this quotation, it seems that this evocative comment, summing up a sensibility that the sovereignty that decolonization had formally ratified had not been achieved, might just as effectively be applied to any moment in Africa's post-colonial history, including the present.

African states have endured high levels of external intervention. The Cold War infused African states with external geostrategic influences, leading to CIA-backed coup plots (Ghana), massive amounts of military aid to ally-regimes (for example Ethiopia in relation to the USSR), superpower-backed insurgency (Angola), and the creation of aid and loan programmes primarily to keep certain regimes pliant and minimally stable (Zaire). In francophone Africa, a direct military presence, in the form of the Foreign Legion, remained in many countries after independence (Luckham 1982). Economically, African economies remained small and highly dependent on three or four exports to global markets over which they had almost no control (Callaghy 2000: 43–83; UNCTAD 1999; Tiffen and Barratt Brown 1992).

Interpretations of African states' problematic external sovereignty have varied. Reflecting Rodney, post-colonial radical scholars began to identify aspects of dependency, *à la* Gunder Frank, in Africa's experiences after independence: the prominence of a small number of multinationals in some countries, the export dependence on a clutch of minerals and cash crops, and the political weakness of African states on the global stage provided the resources to portray Africa as locked into an imperialist system. Nevertheless, as Stephen Lukes and Michel Foucault have both argued, it is insufficient to portray power relations purely in terms of one agent absolutely compelling another agent. 'Hemmed in' as African states might be (Callaghy and Ravenhill 1994), elites have always found room to manoeuvre. African governments have, in one sense, used their formally recognised international sovereignty as a resource to maintain power, even if this juridical sovereignty is hardly matched by a substantive sovereignty within the states' own space (Jackson 1990). Building on this perspective, some writers have argued that African elites have 'instrumentalized' their dependence (Chabal and Deloz 1999), not only using aspects of dependence for their own benefit, but actively pursuing global patrons in order to shore up an 'extraverted' state (Bayart 2000).

What none of these writers challenge is the weak and provisional nature of sovereignty for African states; instead writers have contested how one interprets this situation, each relying on different understandings of African state agency. During the neo-liberal epoch, African states have hardly enjoyed a strengthened sovereignty. Neo-liberalism has, in

Africa perhaps more than in any other part of the world, been experienced as an externally devised and imposed project, largely through the structural adjustment programme. As with all universal visions, articulated by specific and powerful agencies, neo-liberalism has provoked tensions and contradictions in its implementation as a result of its largely external provenance.

Our final general feature of the African state is in one sense the verso of the previous point: a weakly established internal sovereignty (Boone 1998). Herbst (2000) provides a detailed account of a partial state project pursued during the colonial period, succeeded by partially successful attempts at state creation thereafter. States with little legitimacy and/or few resources to construct national infrastructures have had to cope with 'national' populations parts of which might be successfully ignoring, subverting, or undermining state power. In one of the best accounts of rural societies and the state in Africa Sara Berry (1993) highlights the fragility of the state by talking of 'hegemony on a shoestring'. The economic crisis faced by all non-oil-producing states since the later 1970s has only served to intensify the weakness of internal sovereignty, and in cases where civil conflict has broken out, warlordism has quickly emerged, rendering some states as fictional maps (Reno 1995; Clapham 1996). Almost all writing on collapsed or failed states has been focussed on Africa (Gros 1996; Zartman 1995).

The contested or partial nature of internal sovereignty introduces a set of problems for development projects of a different order to those related to the question of implementation: do the preconditions for effective state action (neo-liberal or otherwise) exist in the first place? Neo-liberal reform in Africa has had to reconcile itself with a range of answers to this question: from stable states with a relatively good national infrastructure (say, Tanzania or Zambia) to states with control over only parts of their territory, actively pursuing large-scale war with insurgents (say, Mozambique from 1986 to 1992, or Uganda from 1987). Neo-liberal theory has commonly relied on the existence of a *strong* state (Gamble 1988), and certainly, a minimum level of civic order which in some fashion must be ensured or enforced by the state. In conditions where these premises cannot safely be made, how do neo-liberal projects fare?

This section has reviewed two cardinal features of African states: clientelism and sovereignty. In so doing, it has raised some critical issues that pertain to neo-liberalism's prospects in Africa. These are all clearly political issues, and it is therefore striking how politically naïve global neo-liberal advocates were in their attempts to bring neo-liberal reform

to Africa. This is the story of structural adjustment in Africa during the 1980s, the concern of the next section.

Neo-liberalism's entrée: structural adjustment

As is now well-known and well-researched, neo-liberalism came to Africa on the crest of economic crisis and through World Bank- and IMF-sponsored structural adjustment programmes (SAPs).[2] By 1989, 84 structural adjustment loans had been agreed between the World Bank and sub-Saharan African states (Geest 1994: 189; Owusu 2003: 1659); during the 1980s, 36 African states had between them struck 243 separate adjustment agreements with the World Bank and IMF (Chazan *et al*. 1999: 337). Although not identical,[3] all SAPs contained a core neo-liberal agenda, hardened up by a set of lending conditionalities (Simon *et al*. 1995: 4; Campbell and Loxley 1989; Ghai 1991). For Africa, the early 1980s most closely resembled a period of externally imposed market fundamentalism, dominating development policy (Leys 1996; Rapley 2002).

SAP commonly involved the following economic reforms: the removal of currency pegs that overvalued currencies and a move towards liberalized rates of exchange; the removal of price controls in agricultural marketing; the removal of subsidies for consumer goods; a reduction in recurrent expenditure with a view of balancing the budget; a cutting back in money supply. Other policy areas, less consistently pursued included: sectoral reforms, privatization, and the creation of public quasi-autonomous agencies. All of these policies were expressed through lending conditionalities set out by the World Bank and IMF which came to enjoy substantial influence over indebted states from 1979. In isolation and collectively, this raft of reforms was based in the global intellectual shift towards neo-liberalism that is the concern of this book. In the case of Africa, reforms were based on the pivotal World Bank special report on Africa, *Accelerated Development in Sub Saharan Africa: an Agenda to Action* (World Bank 1981). This report, although rather stereotyped over the years, clearly portrays African states as a problem for development as much as part of the solution. The report marks – and shapes – a strong strategic shift in the World Bank, and it helps define a role for the IMF which had previously not been especially involved in Africa. During the decade after its publication, a virile intellectual current – largely based on mainstream economics and public choice academia – constructed an immense cynicism towards the state as an economic agent, re-casting the state as a rent-seeker, guilty of

directly unproductive activity, and as the bastion of the dreaded 'red tape' that stymies an otherwise imminently resurgent entrepreneurialism (World Bank 1989: 3–5).

If neo-liberalism was imposed through conditionalities based in a neoclassical anti-statism, it was also couched in determinedly technical and economistic terms, despite its obvious political posture. Because of their Articles of Agreement, the World Bank and the IMF could not explicitly include 'political' conditions in their lending conditionalities. Furthermore, the more technical-neutral the language of reform, the less controversial it would appear to the besieged elites that found themselves with few immediate options other than to acquiesce to the neo-liberal agenda (Abrahamsen 2000). SAP became a continent-wide, externally driven neo-liberal agenda, portraying itself modestly through quantitative targets, monetary planning, and lending tranches to support reform.

Through the neo-liberal agenda, constitutionalized within SAP, African states entered into a new regime of external relations. A rapidly denuding (more or less) developmental nationalism was replaced by a series of procedures, reports, and surveys emanating from Washington. Remaining 'on track' in the IMF's eyes, producing thousands of reports for World Bank missions, and generating narratives about reform progress in order to maintain access to credit tranches became the core focus of much governmental activity. In essence, by the late 1980s an externally driven neo-liberal agenda, concretized through the conditionalities set out in SAPs, had most African states in its thrall. Governmental spokespeople were increasingly disposed to speak the technocratic language of neo-liberal reform (not least because of the training they had received from western agencies and, in some cases, because western consultants had been contracted to draft legislation, policy, and even speeches). 'Good' policy became a synonym for the extent to which a state had adhered to neo-liberal economic reform, and in the early 1990s, the World Bank began to distinguish between 'good' and 'bad' adjusters, the beginning of a variety of ranking exercises based on neo-liberal 'progress' which is quite explicitly formulated in the Bank's successor report to the pivotal 1981 report already mentioned: *Reforms Results and the Road Ahead* (World Bank 1994). The image presented in this report is of a set of states, each on a different point along a line of progress defined by a neo-liberal utopia of minimal budget deficits, flexible exchange rates and minimal regulation of internal and external trade (World Bank 1994: 3–4). One road, one way to get there, one set of neo-liberal reforms to take you there. But, by the early 1990s,

it was clear that – regardless of the extent to which states had achieved specific reform targets – the model of an apolitical neo-liberalism for Africa looked increasingly like an oxymoron.

Problems displaced: neo-liberalism and governance

Neo-liberal reform in Africa is, *ab initio*, a political project. As we have seen, neo-liberalism was constructed through the emergence of powerful external agencies willing to intervene in African states' macroeconomic policies. Structural adjustment set out a range of new procedures and policy logics within the state, based on conditionality: reform or risk losing access to loans for badly-needed balance of payments support, etc. But, as reform programmes were rolled out, they raised new political questions that could not so easily be resolved through the 'economese' of SAP. This section will briefly review these 'politicizations' before considering the opaque nature of the politics of neo-liberal reform in Africa. It will become apparent that neo-liberal reform has reinvented clientelist politics, not done away with it.

The politics of implementation: starting the search for neo-liberal politics in Africa

Advocates of neo-liberalism have relied on a range of political assumptions concerning the implementation of structural adjustment. Infamously, Deepak Lal encapsulated the most austere approach, in which reforming elites might have to impose, in authoritarian fashion, the free market medicine on 'vested interests' and reform 'losers' (1983: 33). Although few have been as explicit as Lal about the possible anti-democratic nature of neo-liberal reform, a broader literature has emerged which sees neo-liberalism as a *managerial* question. Neo-liberalism requires reform 'champions' in key positions; implementation requires a balancing of winners and losers, defined as constituencies formed and motivated by the relative changes in prices (Wieland 1998; Nelson 1990). In sum, a reforming elite with managerial savvy would pursue neo-liberal adjustment, with some recognition of the transient 'pain' caused by liberalization. This kind of approach emerged partly as a reaction to the emergence of popular resistance to liberalization in the form of protests and riots (Riley and Parfitt 1994; Harrison 2002: chapter 3; Lugalla 1995; Gibbon 1993).

This neo-liberal managerialism constituted the first step on a difficult journey towards an incrementally broad-ranging political involvement. At each step, neo-liberal intellectuals and agencies have tried to defend

the notion of a 'core' value-neutrality to neo-liberalism, only to find that the boundaries that they have set dissolve to reveal more 'politics'. Because power relations, ideology, morality, and culture serve as foundations of neo-liberalism, attempts to pen political concerns into a specific region will very likely fail.

The managerial concerns of international agencies, mainly the World Bank, led to an increasing reliance on African state capacity. Good implementation required well-trained (that is, proficient in modern economics and finance) civil servants, more sophisticated scheduling of reforms, and new forms of state action temporarily to mollify those groups deemed vulnerable during liberalization (Hutchful 1994; Zack-Williams 2000). Nevertheless, this approach to African states enjoyed limited mileage as external agencies became increasingly aware that structural adjustment was consistently *not* being implemented according to the schedules set out in the programmes in spite of the capacity-building efforts funded by donors. Killick found that between 1979 and 1993, 53 per cent of IMF conditionality was not completed (1995: 61; see also Killick 1997). The issue was not merely how to manage implementation; in fact, implementation itself was problematized as it became increasingly clear that states were purposefully selective about what they implemented. Reforms were delayed and subverted by elites which perceived of external agencies not solely as the powerful vanguards of the new global orthodoxy but also as sources of money with limited knowledge of domestic politics.

By the early 1990s, it was clear that structural adjustment programmes generally had suffered significant policy 'slippage' as a result of the strategies of state elites to bend adjustment to serve immediate political goals (Mosley et al. 1995). Van de Walle's unequalled review of the first twenty years of adjustment is based on this central argument: that 'the [neoliberal] reform process has been increasingly manipulated for political advantage' (2001: 13).

How might this new political problem be resolved? Research largely emanating from the World Bank identified the importance of political will and country 'ownership' of reform as the prerequisites for neo-liberal success. A key aspect of this research agenda was the emergence of quantitative research which argued that aid was only effective in a 'good' policy environment (Burnside and Dollar 2000). Thus, neo-liberal reform raised questions not just about managerial technique, but also political motivation in African states. Once again, the neo-liberal project needed to find a way to redefine its political content in ways that

protected its core drive for liberalization. In large part, this redefinition can be encapsulated in the term 'governance'.

Neo-liberalism and the politics of governance

Governance has become a key part of the lending strategy of the World Bank and IMF. In essence, governance has involved the following areas: a more efficient public administration, the promotion of accountability, the establishment of the rule of law and a capable judiciary, and transparency (World Bank 1994b; World Bank 1992). One can see clearly that these concerns take the World Bank from a focus on managerial leadership to potentially a comprehensive re-moulding of African states (Williams 2000; Harrison 2004), involving very 'intimate' aspects of the political process, such as reducing corruption in the judiciary or opening up spending procedures to public view. The Bank has been keen to align governance reform with a concern to ensure the efficiency of its lending; governance has been tied to the Bank's legitimate remit of promoting 'development', not interfering in the sovereign politics of African states (Shihata 1991; cf. Harris 2002; Marquette 2003).

Amongst the large number of interpretations of governance as a project for indebted states, we need to highlight the fact that the profusion of projects to shape bureaucracies powerfully introduces an institutional politics to the managerial politics already in existence. The key governance reform programmes involve: capacity building, training, the introduction of new personnel and financial management techniques, the creation of new agencies or departments, and new forms of decentralisation (inter alia: Harrison 2004; Turner and Hulme 1997). The premise is that these institutional innovations will *shape* the political preferences of state employees, from the lowest to the highest ranks. By creating the right incentive structures, institutional knowledge, and working relations, governance reform aims to create states with the political will to pursue neo-liberal reform. Ultimately, ideally, states will come to see neo-liberalism as their own common sense, only needing external agencies to provide temporary support for 'home-grown' neo-liberal projects (Abrahamsen 2004).

One could conclude the story here: governance as the 'final frontier' in neo-liberalism's incremental politicization. But this would risk missing two important facets of Africa's experience with neo-liberalism, one of which reveals how ambitious and universalizing neo-liberalism is as a development project, the other which once again suggests that neo-liberal reform has found it difficult to 'fix' its political aspects and defend

its scientific status. We will deal with the latter in the next section and just note the former.

Neo-liberalism is a global project, not just geographically, but also socially. It is a model of a market society. Although neo-liberal agencies have spent most of their energies working on African states for the last 25 years, the deeper purpose of this work is to fashion states that enable the full realization of market societies. Neo-liberalism aims 'not to make a model that is more adequate to the real world, but to make the real world more adequate to its model' (Clarke 2005: 58); or 'to build a universe out of aggregated transactions' (Comaroff and Comaroff 2000: 305). The increasing interest in nongovernmental organizations, social capital, pro-poor growth, and poverty reduction are beginning to shift the focus of the Bank and other donor creditors towards a social engineering which could have profound repercussions for the already embattled fate of 'development' in Africa (Harrison 2005b).

This slightly speculative note concludes a section that has sketched out an externally driven neo-liberal project initially formulated as a project of economic liberalization which required little consideration of political issues. Overt public opposition to liberalization and covert subversion/evasion by governing elites has led neo-liberal projects to accrue a managerial and institutional strategy. In cases where neo-liberal reform has been devised in a sophisticated fashion (so-called second-generation reform) and elites have adopted the thrust of neo-liberal reform as part of mainstream policy making, one might imagine that the awkward politics of neo-liberalism has been disciplined. Managerial and (new) institutional approaches to government each rely on a technical discourse to understand politics, and can readily be wedded to a market-conforming *weltenschauung* (Harrison 2005a). Explicit ideological, normative, and cultural facets of political processes have been successfully excised from the picture. The anti-politics machine has triumphed (Ferguson 1994). The next section will suggest that things are more complex, and that African politics – in all its complexity – still takes its revenge on neo-liberalism's political designs.

Neo-liberal success stories: clientelism in the 'driving seat'?

Neo-liberal reform has not consolidated and stabilized in Africa. It has been subject to reversals – sometimes drastic reversals – and has had to endure extremely turbulent economic and political trajectories. Most countries have not experienced economic recovery and have suffered

severe economic problems which no amount of external finance has solved. Some states, previously seen as serious-minded about neo-liberal reform, have been overtaken by issues of civil conflict and state stability, most notably Zimbabwe in the 1990s and Côte d'Ivoire in the 2000s. Some states, such as Ghana, Kenya, Nigeria, and Zambia, fall in and out of favour (Callaghy 1990). In each of these cases, neo-liberal projects have been undermined by the varied dynamics of clientelist politics. Whether by undermining the budgetary austerity and transparency demanded by the IMF or by provoking civil disorder as the state is pulled apart by clientelist factionalism, neo-liberalism remains vulnerable to the political processes that derive from the fact that African states are, in important respects, a unity of political and economic resources detained by a political elite and distributed through clientelist networks (Szeftel 2000; Bayart 1993; Sandbrook 2000).

This point might serve to externalize clientelist politics from the neo-liberal frame. Economic liberalization, with its managerial and institutional companions, is undermined by the externalities of clientelist machinations. Sandbrook (2000: 89) encapsulates this orthodoxy thus: 'if adjusting governments succumb to populism and clientelism, neoliberals contend, the economic reforms will unravel'. Where/when neo-liberal reform fails, its cognition of its own 'proper' political realm remains intact, even reinforced. But this is not a complete picture: for this point to be fully convincing, one would expect to find that in examples where neo-liberal reform has been (relatively) successful, clientelism has been evacuated from the political process, and replaced with the politics of governance. Or, less convincingly, but still congruent, neo-liberal reform has succeeded *in spite* of clientelist politics. However, existing evidence suggests that clientelist political processes can *contribute* to successful neo-liberal reform in key areas. We will sketch the ways in which this is so with reference to the three states that have gained the most accolades as successful reformers: Mozambique, Tanzania, and Uganda.

A detailed look at the nature of neo-liberal reform in these three states reveals that indeed these three states have achieved a relatively high level of economic growth over a period of at least five years, accompanied by evidence of concerted macroeconomic reform, pursued largely under the auspices of determined ministries of finance. Rather than review the details of the 'bedding in' of neo-liberalism in these states, I want to tease out one specific aspect of neo-liberal success in order to show how, just as the Bank is unsure of the boundaries between neo-liberal reform and a larger sociopolitical realm, so these states have blurred the clear distinction between neo-liberalism and political

processes that are usually externalized from the neo-liberal frame, such as cronyism, corruption, and patronage.

Neo-(liberal) patrimonialism

Mozambique, Pitcher (2003: 3) argues, 'has been the model patient envisioned in neoliberal prescriptions'; the World Bank itself judges that the 'Bank's strategy resulted in … what may be the most successful privatization programme in Africa' (in Cramer 2001: 80). However, privatization has not been carried out in ways that easily fit with the technocratic and apolitical notions of efficiency and the removal of the state from the economy. State-owned companies have been strategically sold, leaving key firms under the control of the government which perceives them as important bases for political support (Pitcher 2003). Those that have been privatized have been subjected to at least underhand and likely corrupt manoeuvres behind the scenes: for example so-called 'silent privatizations' whereby a tender is not announced and a group of insiders in cahoots with a private company transfer ownership under very concessional conditions (Harrison 1999b). In fact, politically connected private buyers of state property often do not pay the full amount and violate the conditions of sale (Cramer 2001). Perhaps the most prominent case of corrupt privatization has been the selling off of national banks. Subject to strong conditionalities set down by the World Bank and the IMF, banks have been sold in opaque circumstances, have not accounted for bad debt, and have not established transparent criteria for capital management. Crucially, the leakage of finance from large banks has been a major source of accumulation for a group of businesspeople and politicians, whether these banks are owned publicly or privately. The result of this is an opaque, chaotic, and violent privatization process which has led to the assassination or attempted assassination of journalists, lawyers, and bank managers who were not bought into networks of complicity (Hanlon 2002; Fauvet and Mosse 2003).

In Uganda, neo-liberal reform has perhaps gone further than anywhere else on the continent. The political will that the Museveni government has displayed in pushing through neo-liberal reform is equalled by the unity, stability, and centralization of the state around the presidency. Indeed, the adoption of structural adjustment was supposedly the result of Museveni's personal decision after discussions within an Presidential Economic Council which effectively acted as a court to Museveni in the early years after gaining power (Lamont 1995: 11–26). Since the mid-1990s, the Ugandan government, regularly attracting plaudits from external sources, has been involved in the illicit

plundering of minerals from the Democratic Republic of Congo (DRC) (Reno 2001; UNEP 2003). Tangri and Mwenda give detailed examples of the way in which the plunder of the DRC's resources and corrupt military procurement have thrown suspicion on those centrally placed within the current government (Tangri and Mwenda 2003). A raft of other privatization scandals (Tangri and Mwenda 2001) also point to the same group of people, clustered around the presidency, and most clearly implicating Museveni's brother. Tanzania, another success story, also has a series of cases of neo-liberal reform, executed on paper but underpinned by corruption, most notably the privatization and contracting of electricity generation (Cooksey 2002).

Neo-liberal equivocations

One might wish to argue that this neo-liberal patrimonialism will evaporate as liberalization proceeds, although this seems rather naïve in light of the fact that the 'straddling' that liberalization has involved has created a new political class that reproduces itself through 'neo-liberal clientelism' and this class is close to the helm of 'success' states (Hibou 1998; Kelsall 2002). Furthermore, the notion of corrupt liberalization relies once again on a problematic boundary that pre-emptively externalizes certain kinds of politics from the neo-liberal framework.

How useful is it to imagine neo-liberal reform exclusively as a project of technical adroitness when forms of clientelism have been so central to the elites that have relatively successfully implemented neo-liberalism? Rather than maintaining a managerial-institutional approach to neo-liberal reform we can modify the political boundaries of neo-liberalism into a *frontier* – this time not to reveal the ways in which the Bank has accrued new 'political' concerns under the neo-liberal banner as in the previous section, but rather to reveal how a broader repertoire of political strategies can be used to underpin neo-liberal reform than one might imagine from Bank publications and, for that matter, from African states' policy documents. If there is a clientelist 'veranda' and a managerial-technical 'air conditioned room', or a shop window and a smoke-filled room (Reno 1995), then they are part of the same (state) house; and many of the champions of neo-liberalism move from one room to the other.

On some level, the World Bank is aware of this. Although it would be excessive to state that the Bank actively supports clientelist practice, there is evidence that Bank missions in each of these countries mentioned above has been willing to indulge practices that it is officially opposed to precisely because these practices underpin these countries'

success stories. The World Bank failed to push fully for the creation of a High Authority Against Corruption in Mozambique, and indeed pushed bank privatization even in the face of evidence of ruptures of capital to unknown private interests (Harrison 1999a; Hanlon 2004). The World Bank has responded very weakly to the rising evidence of corruption at the highest levels in Uganda, concerned as it is to protect its 'best pupil' in Africa (Reno 2002). And, in respect to Tanzania, perhaps the best commentary comes from a World Bank Operations Evaluation Report by the Bank: 'The [World Bank's] Country Assistance Strategy seems to have avoided as much as possible raising the issue of corruption, which is perhaps seen to be politically contentious [...] Although corruption in Tanzania is a serious problem, there seems to be an assessment that a more public airing of the problem would hurt rather than help the reform process' (OED 2001). At the operational level, some Bank staff recognise that incremental and effective neo-liberal reform relies in part on the clientelist strategies of those who champion Neo-liberalism in a specific national context.

I would not wish to argue that at some covert level, the World Bank and others 'really' work happily within the clientelism that exists in African states. Rather, neo-liberal agencies encounter in a range of specific interventions, partially understood political relations which may or may not fit within the accepted frame of appropriate neo-liberal politics. If clientelist politics publicly undermines neo-liberal reform, it is a lot more likely that donors will exert pressure to challenge it than if those forms of clientelist politics have little impact on neo-liberal reform or, as is certainly possible, where it constitutes part of a successful reform process.

Conclusion

It would be excessive to state that neo-liberalism has been fully 'hijacked' by clientelist politics, but it would be equally schematic to state that neo-liberalism has established a political space for itself in which patronage, crony politics, and corruption have gained no entry. In the introduction, we noted that clientelism connotes an ever-changing repertoire of political strategies not easily reduced to a political essentialism. In this light, it might be that *certain kinds* of clientelism can constitute part of the neo-liberal project in Africa. In fact, a minority position in the public choice literature on rent-seeking argues that certain forms of corruption are less problematic than others for economic liberalization. If corruption is centralized and predictable, it might not

be 'bad for business': in fact corruption might become an institutionalized set of (shadow) prices that can be factored into investment and expenditure decisions (Goudie and Stasavage 1998). Rather, it is 'anarchic' corruption that is the problem: where bribe 'contracts' are not honoured and where bribe payers do not know whom they should pay and how much. It follows that centrally controlled and/or highly regularized clientelist transactions might be harmonized with neo-liberal reform projects. Furthermore, different forms of clientelism have different impacts on the state and consequently different impacts on neo-liberal reform. Corruption in a Central Bank or cronyism in an investment agency constitutes a far greater potential problem for neo-liberal agencies than the pervasive, routine, but low-level extraction of bribes in a national vehicle licensing agency.

Stepping back a little, perhaps we arrive at a conclusion which is both mundane and profound. The neo-liberal project in Africa has worked much like marketization in all parts of the world – deeply riven with moments of political compulsion, preference, cronyism and scheming. There is no politically 'pristine' national history of capitalism (cf. Wood 1991; Chang 2002). In this sense, Africa is not exotic terrain for neo-liberal champions; it merely poses difficult questions about neo-liberalism's own intellectual and historic origins.

Notes

1 I will use the term 'Africa' from hereon as sshorthand for those states south of the Sahara and excluding South Africa.
2 SAP is used here generically, to refer to Structural Adjustment Loans, Programmes and Facilities devised by the World Bank and IMF.
3 For example, until 1994, the francophonie states could not devalue their currencies as they were tied to the French franc.

7

Serving the Market or Serving the Party: Neo-liberalism in China

Shaun Breslin

Introduction

In 2003 the unashamedly pro-neoliberal Heritage Foundation ranked China as 127th out of 157 countries in a league table of economic freedom in 2003 – and ranked China as less free in 2003 than before it joined the WTO in 2000.[1] But while China is still far from a free market neo-liberal economy, neo-liberal ideas have become increasingly influential. In searching for a new basis of party legitimacy in the post-Mao era, liberal economic (but not political) ideas gained increasing credence amongst some key national leaders as liberalizing reforms were deemed to be successful in generating economic growth. But the desire to build a new economic system has often collided with embedded political interests – most notably the concern that a more efficient economy would generate large-scale unemployment and exacerbate existing inequalities. At the local level too, many officials have embraced and promoted the private sector as a means of generating personal wealth – albeit a private sector that they closely regulate to eliminate risk.

The chapter aims to show that China has moved from a state-planned and state-owned economy towards state regulation of a hybrid economic system with the existence of a private economic sphere that remains very close to the state system that spawned it. The form of neo-liberalism that has materialized in China is one where state actors, often at the local level, remain central to the functioning of an economic system that has, in large measure, dysfunctionally evolved to suit their interests.

The transition from socialism

Unlike some of its East Asian neighbours, the Chinese leadership has not been forced into accepting neo-liberal reforms in return for help from

the international financial institutions. To be sure, the entry criteria that China signed up to in joining the WTO has already led to further liberalization, with more to follow. But this resulted from the deliberate choice of Chinese leaders that WTO entry was in China's best economic interests and was not an external imposition in the wake of financial crisis.

The Chinese reform experience also stands in stark contrast to the transition from socialism in the former Soviet Union. There was no quick turn to the market in China, with the transition from socialism marked by gradualism and incrementalism rather than the Russian-style 'big bang'. In starting China on the road towards a more market-oriented economy, China's post-Mao leadership did not begin with an ideological commitment to neo-liberalism – far from it. Rather they started from one single overriding concern – how best to ensure the CCP's continued grip on power. Deng Xiaoping and others were well aware of the popular loss in faith in the CCP following the horrors of the Cultural Revolution and understood that the previous legitimation strategy of mass campaigns, political programmes and ideological indoctrination were the cause of the problem, rather than the solution.

To this end, a new strategy emerged that attempted to rebuild legitimacy around three key pillars that more or less continue to be the basis of party rule today. The first is ideology – albeit very different in form and use than in the pre-reform era. The party continually postponed the date at which economic development would allow the transition to communism, before effectively allowing the aspiration to slide off the agenda. But Chinese communism always contained a strong nationalist element – communism was as much a means to rebuilding a strong and powerful China as it was an end in itself. With the communist element of ideology increasingly irrelevant and ignored, the party reaffirmed its nationalist credentials, portraying itself as the defender of China's national interests in a largely hostile international environment.

The second is legitimacy through performance – with performance largely defined in terms of economic growth and providing the population with tangible material economic benefits (an issue we will return to later in this chapter). Using limited market forces in the domestic economy and allowing limited integration with the capitalist global economy were initially conceived of as a supplement to the state-owned and state-planned economy. Their further extension in the 1980s came not because of a road to Damascus conversion to neo-liberalism, but because (as we shall see in more detail later) they were deemed to have worked. By the mid-1990s, key policy makers increasingly came to see further

liberalization as the best way of generating the capital accumulation and growth that the party required if it was to deliver – and increasingly saw the maintenance of the old state system as a major impediment to delivering promised economic objectives. Equally as important, individual party-state members also increasingly realized that they could exploit their positions as intermediaries between the state and the emerging market for their own personal benefit.

The third source of legitimacy is stability. Continued CCP rule is portrayed as providing the political stability and personal safety which disappeared in other communist party states where political reform led to the collapse of communist party control. Crucially, the stability provided by party rule is not just important in itself, but also as the prerequisite for delivering economic growth and prosperity. The CCP tolerates no challenges to its monopoly on political power, but calculates that the vast majority of the people will accept this so long as their economic well-being is improving, or at least not declining. What has emerged is an unwritten social contract between the party and the people whereby the people do not compete with the party for political power as long as the party looks after their economic fortunes.

Whilst the Chinese economy is still far from totally liberal, its increasingly liberal form stands in contrast to a highly illiberal political structure. But, as noted elsewhere in this collection, the emergence of 'illiberal liberalism' where authoritarian political elites adopt and adapt neo-liberal strategies to generate growth is far from unique to China.[2] Indeed, the 'success' of the liberalization process is largely because the authoritarian modernizing elite has been able to control political processes and (notwithstanding what happened in Tiananmen Square in 1989) maintain political stability during a period of radical and rapid economic change.

Such stability has, in part, been maintained through the straightforward suppression of political demands by individual activists and nascent political groupings. But there is also a proactive element to policy which entails limiting the extent of liberalization of the Chinese economy. Notwithstanding the acceptance by some that liberalization provided the best way of generating quick economic growth, there was also a perception that market competition – both domestic and international – was potentially damaging for those employed in the state sector, and also for many rural workers. This combination of a desire to liberalize whilst simultaneously protecting those who might suffer from the introduction of those same market reforms has been categorized as an attempt to establish 'reform without losers' (Lau, Qian and Roland 2000).

This dual goal of liberalizing and protecting goes a long way to explain the way in which the transition from socialism has evolved since 1978. It also helps explain how neo-liberalism has been mediated by the embedded social and economic structure to create a hybrid economic system.

Liberalization and the domestic economy

The Third Plenum of the 11th Central Committee in December 1978 is usually seen as the start of the reform process in China. Although the specific policy changes introduced in 1978 were important, the focus here is on the ideation shift at the Third Plenum, and the basis that it established for further reinterpretation of ideas in the future. Although the CCP formally remained committed to class struggle after the Third Plenum, this political priority of CCP rule was relegated to a secondary place behind the goal of economic modernization. To be sure, Deng Xiaoping and others had previously argued that economic development should be the party's main task in the short term – and public statements relating to the colour of cats and raising output came back to haunt Deng during the Cultural Revolution. But by moving the basis of party rule from an politically to economically mobilized model (Wang 1988) the Third Plenum created a benchmark for polity that laid the foundations for the more radical changes that were to come.

In terms of theory building, it was not until 1987 that the then Party General Secretary, Zhao Ziyang, provided a theoretical framework that explained the dominance of economic development as the party's primary goal. In what was effectively an ex post facto justification for what had gone before, Zhao explained that as the Chinese economy was still hugely underdeveloped when compared to:

> developed capitalist countries, we are destined to go through a very long primary stage. During this stage, we shall accomplish industrialization and the commercialization, socialization and modernization of production, which many other countries have achieved under capitalist conditions. (Zhao 1987: 10–11)

a statement that Kwan (2002) believes was akin to justifying primitive capitalism rather than socialism.

Not least because the CCP had spend much of its previous 40 years in power condemning the evils of capitalism, the promotion of private ownership and the formal acceptance of capitalist methods remained

politically difficult, and the 'Tentative Stipulations on Private Enterprises' in 1988 did little to encourage the formal registration of private enterprises. But while the leadership felt unable to extol the virtues of private enterprises, and private actors were not prepared to take the political risk of being identified as such, there was room for manoeuvre at the blurred definitional and conceptual edges between state and non-state activity.

On one level, the concept of 'individual ownership' (*getihu*) had been accepted as a legitimate form of ownership that was in some ways something less than 'private ownership' (*siyingzhi*) as early as 1981. On another level, economic activity outside of state control had emerged in the countryside through the decollectivization of agriculture. Freed from total control over what they could produce and how much they received for their produce, many rural households developed side-line activities where prices and distribution were determined by the market, rather than by the state. With other rural workers forced from the land as part of the search for greater efficiency in farming, the government acted to prevent a massive influx of migrants into the cities by encouraging them to 'leave the land but not the countryside'. To this end, surplus workers were absorbed by the creation of Township and Village Enterprises (TVEs) which proved to be one of the main engines of economic growth, and a major source of China's export boom in the 1990s.

Despite the significant contribution that non-state activity was making to economic growth, the process of liberalization was not smooth. For example, as inflation grew in the late 1980s, Premier Li Peng partially retreated from reform and restored elements of state control, pricing and planning in 1988. The number of private and individually owned enterprises 'declined significantly' in the following four years – not least as the conservative political wind post-Tiananmen saw increased attacks on the private sector and market economics in general (Liu 2003: 3). The watershed came in Deng Xiaoping's inspection tour of southern China in 1992 – what has become known as the *nan xun*. Despite not holding a formal position of power, Deng made his last significant intervention in the direction of reform.

Acting in an ad hoc manner, Deng praised the emergence of proto-capitalist practices in open areas and called a new policy of rapid economic reform and further opening. Deng did not formally reject socialism or embrace capitalism, but rather dodged the issue of definitions:

> The fundamental difference between socialism and capitalism does not lie in the question of whether the planning mechanism or the

> market mechanism plays a larger role. [The] planned economy does not equal socialism, because planning also exists in capitalism; neither does [the] market economy equal capitalism, because the market also exists in socialism. Both planning and market are just economic means.[3]

With the increasing importance of the non-state sector and concomitant decline in the significance of state planning made the concept of a planned socialist economy increasingly out of step with reality. Thus, in October 1993, the Chinese economy was redefined as being a 'socialist market economy'. 'Socialist' because public ownership remained conceived as the dominant form, but 'market economy' as the law of value rather than state planning should be utilized. As a result, the rights of all types of enterprises to purchase, produce and sell what they wanted was increased (though not wholly liberalized – liberalization is relative) and the number of products where the state set the price and planned production was further decreased. Within five years, over 80 per cent of all prices were determined by market forces rather than being set by the state (*People's Daily* 2000).

So whilst liberalization was initially conceived as providing a supplement to the state sector, the logic of maintaining this stance was increasingly challenged. It was not just that the non-state sector seemed to be the most successful in generating the growth that the CCP wanted, but that the state sector as a whole appeared to be a drain on the economy. By 1994, key leaders, notably Zhu Rongji,[4] considered that the policy of maintaining state-owned enterprises (SOEs) had to be reconsidered. They might be providing employment, and through this also providing social welfare, but they were consuming large amounts of cheap industrial inputs which they utilized much less efficiently than the non-state sector.

Perhaps more importantly, keeping them afloat was costing billions in subsidies and loans, contributing to the near-bankruptcy of the Chinese financial system. In 1996, prior to the Company Law which put into operation real SOE reform, around half of all SOEs officially made a loss,[5] and unpaid loans to various levels of government by SOEs accounted for around 10 per cent of Chinese GNP.[6] On top of this, many SOEs only continued operating through the provision of huge loans through the banking system that had very little chance of ever being paid back. Under the policy of 'grasping the big and letting go of the small', larger SOEs remained within the state sector, while small SOEs were transferred to private ownership. If they could not survive without continued financial inputs, then they should be allowed to go bankrupt.

Proponents of (limited) liberalization: the emerging party-state bourgeoisie

In reforming the domestic economy, then, the fact that liberal ideas and policies seemed to work in attaining the CCP's goal of generating rapid economic growth generated an understanding (for some at least) that further liberalization was the best way forward. But we should also pay attention to the way in which many party-state officials have utilized their key positions between the state and the market to capture many of the benefits of liberalization, and, in the process, influence the way in which reforms have created capitalist forms in China.

Before starting an assessment of the nature of the Chinese economy, it is essential to abandon a clear conception of divisions between the public and the private. For example, TVEs would probably be categorized as being part of a state-owned sector in many parts of the world. Ownership resides in local governments; they have special and preferred access to credit, benefit from privileged trading relations with SOEs, and receive political protection from local governments not afforded to formally registered individual or private enterprises (Jin and Qian 1998). Nevertheless, they are considered in China to be very different from 'state owned enterprises' – they are 'non-state' but also non-private.[7]

For Wank (1998: 2–3) there is no point in focussing on formal legal distinctions between the public and the private. More important is the 'social environment' that determines market activities – in short, a good relationship with local party-state officials is much more important for doing business than the formal ownership classification of that enterprise. Commercial rationality in China is less about searching out market opportunities than about searching for strong ties for local officialdom that will, in turn, guarantee those market opportunities (Wank 1998). Whilst accepting that personalized networks of relationships in business are not unique to China, and that the need for these relationships are a result of the nature of the Chinese market rather than any cultural norms, establishing what the Chinese call *guanxi* relationships is an essential form of social capital in China (Gold, Guthrie and Wank 2002: 7).

So despite the fact that the non-state sector is now bigger than the state sector, the state–economy relationship remains extremely strong in contemporary China. Much of what is considered non-state remains heavily connected to officialdom through various mechanisms. Much of the non-state sector in contemporary China has its origins in the party-state sector that spawned it. Dickson (2003) focuses on the emergence of

new entrepreneurial elites from the ranks of the political elites, concentrating on the children of party-state officials, and those entrepreneurs who have left formal political office to assume private economic roles – a process known as 'jumping into the sea' (*xiahai*). Particularly at the local level, power holders are swapping the prestige, influence and wealth that came from forming part of the political structure for the wealth that comes from being a factory manager, or a member of the board. To be more accurate, they are not so much swapping one source of power for another; rather, they are using their political positions to increase their economic potential and bargaining power.[8]

Walder (2002) argues that a wave of privatization that began in 1988 gave a new impetus to this process. But rather than own or run the enterprises themselves, officials more often retained control by proxy. On one level, they established new enterprises run by their relatives, or transferred ownership of publicly owned assets to private enterprises owned by 'cadre kin'. They then allocated state contracts to these enterprises and provided protection through local state power. On another level, when public enterprises were privatized, the existing managers of the enterprises, with whom local officials had a close working relationship, were typically the first people to be considered as potential new owners. This form of privatization did not entail government officials directly taking control of public enterprises and assets, but was rather a form of 'insider privatization' (Walder 2002: 13) whereby officials directed the privatization process towards close contacts or relatives, and ensured that the success of these enterprises remained contingent on the new owners' relationship with the local government.[9]

Ding (2000a) has referred to the resulting relationship between political and economic elites as 'nomenklatura capitalism' and considers this process of privatization as comprising illegal asset stripping (Ding 2000b). For example, existing state-owned companies would remain in existence, but perform a role of providing cheap supplies to a new privately owned company. Or employees would remain on the books of and be paid by state-owned enterprises, whilst actually working for affiliated private companies (usually officially classified as being collectively owned for legal purposes). Whatever the specific tactic employed, losses would be located in the state sector, and profits in the private.

But the coalescence of political and new economic elites is not just a one-way process. Private entrepreneurs in China find it difficult to make headway unless they enjoy a good relationship with the party-state elites. Even those who have no formal contacts with the party-state are essentially dependent on strong support from local authorities in order

to survive. Indeed, successful 'private' local enterprises frequently – or, more correctly, usually – succeed thanks to the protection and aid afforded to them by local state elites. In an economy where land, raw materials, transport and finance capital are still in relatively short supply, occupying a gatekeeper role (or knowing somebody who does) has an important economic premium. As such, a form of business–local state alliance is an essential prerequisite for successful economic activity.

Thus, there is, and long has been, a tendency for emerging private enterprises to form an alliance with local governments. This has often resulted in what are effectively private companies being officially classified as collectively owned 'in order to obtain the security and privileges that those governments extend to collective firms' (ADB 2003: 63) – 'red hat' enterprises. This can include extending ownership to the local government, local party-state leaders taking a seat on the company board in a private capacity, or simply paying a fee relative to output or turnover to the local authorities. In addition to hard factors, such as easier access to capital, being classified as collectively owned ameliorated what Liu (2003: 4) refers to as 'ideological harassment'.

Furthermore, new entrepreneurial elites are trying to stabilize their positions by joining the party. And crucially, even before the formal decision to allow 'advanced productive forces' into the party, some local organizations were more than happy to accept these entrepreneurs into the party. They deemed the economic growth that new enterprises provided as beneficial for local development and the provision of revenues for the local government. Party membership, and the benefits it provided for the private entrepreneurs, were also often provided in return for more tangible private economic rewards for party-state officials in the form of a seat on the company's board, or other means of remuneration.

This hand-in-glove relationship has led a number of observers to describe China as a corporatist economy. There is some value in this concept, particularly if we modify the idea and think in terms of local corporatism where local governments develop 'institutional ties with civic and professional groups to bring them into the state' (Dickson 2003: 4). But the classic idea of corporatism with governments interacting through peak organizations with representatives of economic and social groups perhaps involves a notion of a greater degree of independence from the state (or party, or party-state) than is really the case in China. Yep (2000) also argues that peak organizations such as business organizations lack the necessary coherence and homogeneity to represent their sectors as a whole, and provide the effective means of state–society dialogue foreseen by corporatist models.

What has evolved is an economic system where state actors have created the space for the private sector to dominate and regulate the market to ensure that an emerging bourgeoisie, characterized by close relations to the party state, can appropriate surplus value. Members of this party-state bourgeoisie promote liberalization that is beneficial to themselves or their families, but strive to maintain the state control that consolidates their privileged position between the state and the market. And, crucially, it is regulation of the market at the local level, rather than the national level, that is most significant in shaping this evolving class formation. As such, in considering the relationship between neo-liberalism and the Chinese state, it is essential to move away from a purely national-level analysis and acknowledge the role of the local state (Oi 1995).

Decentralized socialism and fragmented proto-capitalisms

State power exists at different levels of the 'local' in China, from the still relatively centralized provincial level right down to towns and villages. Township and village-level governments have also been crucial in establishing new enterprises, and also being the basic level of revenue collection across the country, often deploying innovative and proactive means of generating income (Bernstein and Lu 2003). With a blurring of functions at the local level, governments are often left to regulate both themselves and the local economies – local economies that they might not directly own, but with which they have a hand-in-glove relationship. The power of local authorities to collect and impose fees and local influence (of not control) of local banks contributes to the characterization of many local governments as acting like old feudal economies (*zhuhou jingji*).

Strong arguments have been made for arguing that local power has been highly successful in generating economic growth (Oi 1999; Montinola, Qian and Weingast 1996; Xu and Zhuang 1998; Lin and Liu 2000). Wederman (2003) argues that localism is also a 'positive' force for the transition towards capitalism, engendering competition between rent-seekers. Others are less convinced, pointing to the negative consequences of local governments establishing trade barriers to prevent 'imports' from other parts of China in order to maintain production in local factories. Although this maintains employment in enterprises that might not be able to exist in a competitive market, and provides finances for future local projects through local revenue collection:[10]

> Regional protectionism – by protecting the backward, inflating trade costs, blocking the equitable allocation of resources, and hindering

> the formation of large-scale economies – [it] is becoming the main cause for the weakening international competitiveness of Chinese enterprises. (Hou 2004: 24)

Even proponents of local control accept that decentralization has also resulted in some negative or at least problematic outcomes. The lack of macro-control resulted in a highly inefficient use of scarce investment capital, and allowed local authorities to pursue development strategies irrespective of national goals and strategies. Such strategies can take place to deliberately emulate other localities' successful ventures or without knowledge of what is happening in other localities (known as 'blind investment' – *mangmu de touzi*).

There are two key implications of this short detour into local politics in China for this analysis. First, if we expect neo-liberalism to be operationalized in different ways in different countries given the different embedded contexts of each case, so we should expect neo-liberalism to produce different types of capitalism in different parts of China. Second, whilst national-level policies are clearly important in establishing the way that liberalization policies are mediated by other concerns and policies, it is often at the local level that such mediation occurs. And, as we shall see in the following section, what happens at the local level can, and indeed sometimes does, conflict with the priorities and policies of national-level elites.

The domestic–international nexus

The 'logic of success' argument advanced as a partial explanation for the evolution of domestic reform in China is also helpful in explaining why the desire to ensure rapid capital accumulation influenced the evolution of China's international economic relations. As in the case of domestic reform, justifying insertion into the capitalist global economy had to be addressed. Thus, international economic contacts were originally limited to just four Special Economic Zones (SEZs) with the (limited) freedom to conduct international economic relations.[11] These SEZs were conceived as 'windows on the world' for China – allowing international economic contacts to grow, but limiting them to specific areas to allay fears from political conservatives that such contacts would lead to 'bourgeois spiritual pollution' (Bachman 1988).

The success of the SEZs in attracting investment and facilitating rapid capital accumulation quickly generated a momentum for further and greater international contacts. For example, in 1984, the government

decided to open five more cities to trade, but as a result of lobbying from local leaders, a total of 14 cities were instead 'opened up' (Hamrin 1990: 83), all of them along China's coast. Whilst the rest of the country was gradually opened up to international economic contacts (in geographic terms at least) a striking feature of China's re-engagement with the global economy is a continued uneven geographic distribution, with the vast majority of investment and trade still concentrated on the coastal regions.

Gill's (1995) conception of disciplinary neo-liberalism helps us understand the transfer of ideas and then policy from the global capitalist economy into China. The desire for rapid capital accumulation has disciplined state actors into implementing liberalizing policy reforms to attract investment. For example, the 1986 'twenty-two regulations' lowered fees for labour and rent, provided tax rebates for exporters, and made it possible for foreign companies to convert limited profits earned in RMB into foreign exchange and repatriate profits, and created a legal basis for wholly foreign owned enterprises, rather than the previous insistence on foreign companies working in joint venture with a Chinese partner. In addition to such national-level initiatives, local authorities across China have competed with each other, and other export-oriented economies in East Asia, to attract and then retain investment. In order to do so, local officials have put in place policies that investors want – the global market has disciplined local state actors into making the changes that global non-state economic actors want.

And on the occasions when local and national state actors have ignored the requirements of investors, they have usually been less than successful. For example, in their analysis of Taiwanese investment in the Xiamen SEZ, Qi and Howe (1995) show how the Xiamen authorities originally concentrated on attracting electronics manufacturers, and designed their local development strategy accordingly. However, Taiwanese investors had different priorities, and instead brought in more and more chemicals producers: 'faced with this divergence, the Xiamen authorities apparently abandoned their original goal and declared petrochemicals to be their new "investment emphasis" '.

A similar process occurred in Shenzhen where the local leadership tried to restructure the local economy by imposing disincentives for processing industries and component assembly. Whilst these industries did indeed decline, the high-tech and finance investments that Shenzhen were hoping to attract were not forthcoming, forcing the local authority to reverse its policy, and to reintroduce a number of incentives to lure back the processing and component assembly investments.[12] And when

the government in Beijing removed tax exemptions on imported goods used in foreign-funded enterprises in 1996, FDI declined to such an extent that the government back-tracked and reintroduced tax exemptions on such imports from 1 January 1998.

Perhaps even more than in the case of domestic reform, enthusiastic participation in the global capitalist economy was combined with concern over how key domestic groups could deal with international competition. As Naughton (2000)[13] argues, this resulted in a dualistic investment regime. Where foreign actors did not compete with domestic actors, then they were encouraged to come to China. But this liberal export regime sat alongside a relatively closed and protected domestic trading regime designed to protect domestic producers from competition in order to maintain production.

Judged on its own terms, the policy was a great success. Re-engagement might not have produced all the technological and skills upgrading that it was originally thought it would deliver. But China's relative lack of openness allowed the government to defend perceived national interests by protecting domestic producers whilst simultaneously supporting domestic exporters and developing new export industries on the back of FDI. Furthermore, the maintenance of a relatively closed financial system provided a bulwark against speculative capital flows and was one reason why China escaped the 1997 regional financial crises comparatively unscathed (Yu 1999: 15).

Liberalization and the WTO: international and domestic imperatives

This dualistic system should be gradually unified through the implementation of liberalizing reforms to comply with the terms of China's WTO entry criteria. Debates continue over the extent to which China has fully complied with all that it agreed to in 2001. But while the full terms of the agreement may never be implemented, there are two main reasons why the WTO still marks a crucial turning point in the way that neo-liberalism has influenced China's political and economic structures.

First, WTO entry has provided a spur to government restructuring designed to make a final move from government control over the economy to government supervision and regulation 'through legal and economic means'. To be sure, such restructuring was already underway before WTO, with the creation of three key supervisory agencies in 1998 – the Ministry of Finance, the People's Bank of China and the State

Planning Commission (renamed the State Development Planning Commission in 2000). In 2003, 'planning' disappeared altogether, as the Planning Commission was merged with the Structural Reform Office of the State Council to create the State Development and Reform Commission. Significantly, the need to put in place a new regulatory framework resulting from China's WTO commitments led to the merger of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) with the State Economic and Trade Commission (SETC) to create a new Ministry of Commerce. For the first time, the relationship between the international and the domestic was officially accepted. In combination, the reforms of 2004 established a governmental structure designed to regulate the economy rather than control it.

Second, while the decision to join on the conditions negotiated in 2001 was clearly influenced by a need to secure access to major markets in the developed world and to participate in the construction of future global trading laws, it also reflected the changing conceptions of some Chinese leaders of the long-term benefits of restricting domestic sectors from competition. Rather than seeing the national interest as being served by protecting vulnerable sectors from competition, key officials such as Zhu Rongji began to perceive China's long-term economic interests as best served by removing the protection previously offered by the state, accepting neo-liberal tenets and creating a more market efficient economy through domestic and international competition.

Crucially, these policy preferences were not shared by all. Zhu Rongji's ideas were not only opposed by those at the centre, but also by the local power holders (discussed above) who favoured maintenance of a status quo that had served their interests so well. So, unable to push through reform in the face of bureaucratic obstruction – particularly, but not only, from local authorities, Zhu turned to an international constituency for reform As Fewsmith (2001: 574) argues: 'Frustrated by bureaucratic obstruction to fundamental reform, Zhu was willing to avail himself of foreign competitive pressures to force restructuring.'

Zhu's turn towards the international community for external support and validation, and to bolster his domestic position (Groombridge and Barfield 1999), were welcomed by many within the international community itself. Not just – but most importantly – in the US, there was a desire to maintain Zhu Rongji's position within the Chinese leadership and to further open the Chinese economy to foreign actors. There was also a strong conception that WTO entry would facilitate the spread of neo-liberal ideas into China, and lock it into 'international norms' established by the advanced industrialized

democracies. As an official White House statement on China's WTO entry stated in March 2000:

> China's accession agreement will deepen and help to lock in market reforms – and empower those in China's leadership who want their country to move further and faster toward economic freedom … and increase the likelihood that it will play by global rules.

The case of WTO entry also shows that the policy preferences of key leaders are important, but they are not the only significant factor. This is not a political system in which a central leader speaks and the rest of the country falls in line. WTO reforms have been delayed and reinterpreted (if not totally resisted) by central-level officials who perceive that their power base will be diminished (Murphy 2003). Kynge (2002) argues that 'the regulatory agencies who often regard themselves as the protector of domestic companies rather than the regulator' have played a particularly important role in 'interpreting' WTO agreements in ways that allow more protection for domestic producers that was originally intended. This has resulted in 'a dense web of Chinese regulations' (Dougherty 2002) which in some cases has undermined the liberalizing spirit and at times the letter of the WTO agreement. And as noted above, how local markets are regulated owes at least as much to the preferences of local leaders than it does to central directives.

Indeed, after Zhu Rongji stepped down as premier, his policies began to attract official criticism (although Zhu was not criticized by name). The search for increased economic efficiency under Zhu had not only failed to deal with problems of increased inequality, but rather had also contributed to increased societal stratification. It was time for politics to reassert itself over economics and for social justice to reassert itself over economic efficiency as the party's main task (*People's Daily*, 12 August 2004). But this does not suggest a total rejection of liberal ideas. Indeed, in encouraging investment into the interior of the country, and establishing new laws allowing foreign companies to acquire stakes in SOEs, the solution to developmental issues are, in part at least, seen in the extension of the liberal project rather than its negation.

Conclusions: the future of illiberal liberalism

On the 80th anniversary of the creation of the CCP in 2001, the then Party leader, Jiang Zemin, proposed that private entrepreneurs should be allowed to join the Communist Party. Despite the concerns and

protests of many party members (Dickson 2002, 2003), the party constitution was amended at the 16th Party Congress in November 2002 to add Jiang's theory of the 'Three Represents' to Marxism-Leninism-Mao Zedong Thought as the party's guiding principle. As a result, the CCP now formally represents not just the Chinese proletariat, but also China's advanced productive forces, China's advanced culture, and 'the fundamental interests of the overwhelming majority of the Chinese people'. As a consequence, the CCP is no longer just the vanguard of the proletariat, but of 'Chinese People and the Chinese nation', and membership is open to 'any advanced element', including private entrepreneurs.

This rather uncritical support for liberalization was tempered after Hu Jintao replaced Jiang as party leader in 2003. Hu implicitly criticized his predecessor's neglect of key negative impacts of liberalization – most notably inequality and the potential for corruption. Hu even instigated an official enquiry into the failings and dangers of economic neo-liberalism (Fewsmith 2005) and a campaign to criticize politically liberal intellectuals. Nevertheless, being aware of the dangers of neo-liberalism and being critical of liberal thinking did not mean the rejection of liberalization *per se*. Rather, the party had to 'put people first' and guide policy to serve politically informed objectives rather than assuming that continued economic growth on its own would provide the solution to China's social ills.

In truth, few people in China are really concerned about how the party theoretically justifies its oversight of economic reform as long as that economic reform is bringing tangible economic results. Returning to the discussion of legitimacy at the start of this chapter, it is not so much what the party says as what it delivers that conditions popular attitude towards party rule. Whilst party members were exhorted to study the theory of the three represents, the concept of a '*xiaokang*' society was promoted for the wider population. The concept of *xiaokang* is sometimes associated with a 'middle class' society, is better understood as referring to the creation of a moderately well off society[14] – 'less affluent than "well-off" but better off than freedom from want' (Xinhua 2002). If the people don't challenge the party for political power, then the party will deliver the lifestyle that they crave for.

Of course, there is a strong body of work that suggests that it is the rise of the middle class that will ultimately lead to the end of illiberal liberalism as they mobilize politically to protect their property rights and societal position. But in the Chinese case, the current system precisely because authoritarianism serves the interests of both existing political

elites and the emerging bourgeoisie that retains such a close link with the party-state. This does not mean that it is 'efficient' in terms of the allocation of resources as the problems of the financial system indicate. Nor does it mean that it is 'fair'. But while there have indeed been losers of reform (either absolute or relative), the interests of those groups that count most in the power structure are served by the system that they have (often dysfunctionally) generated. It works because it serves the political and economic interests of those who have had the most control over its evolution.

Economic reform in China might not yet have generated democratization, but it has generated massive political change – notably the transformation of relationships between existing state actors, and the changing basis of their power. There is a symbiotic relationship (at the very least) between state elites and new economic elites. They have effectively co-opted each other into an alliance that, for the time being, mutually reinforces each other's power and influence, not to mention personal fortunes. What we see, then, is a process of reformulation of class alliances within China. Rather than being a dictatorship of the proletariat, the party leadership increasingly resembles an authoritarian executive leadership acting on behalf of the bourgeoisie (and, in many respects, generating the bourgeoisie), whilst providing palliatives for social groups that could jeopardize stability if they lost too much. Rather than fear the rise of new middle classes, the CCP appears to be more concerned that the middle class will not grow quickly enough to ensure its legitimacy by providing the lifestyle for all that it promises.

Notes

1 The only areas where China came out 'well' (by the heritage foundation criteria) was a 2 for the low level of fiscal burden, and 1 for monetary policy due to low levels of inflation. See http://cf.heritage.org/index/country.cfm?ID=30.0.
2 And this illiberalism is welcomed by at least some foreign investors through the provision of a disciplined labour force which is not allowed to organize to protect workers' interests.
3 Cited in Woo (1999: 46).
4 Zhu served as vice premier with responsibility for financial reform from 1994 to 1998, and as premier from 1998 to 2003.
5 Though interviews in China at the time suggested a real figure nearer two-thirds.
6 State Statistical Bureau via China News Digest, 15 December 1996.
7 This classification can create massive methodological problems in considering the nature of the Chinese economy depending on whether TVEs as a sector are considered to be part of the state sector, or part of the private sector (Chang and Wang 1994; Weitzman and Xu 1994).

8 This is quite apart from the growth of corruption where party state officials use illict means of utilising their gateholder positions to ensure personal financial gain.
9 There is a close relationship between this kind of relationship and corruption.
10 Bernstein and Lu (2003: chapter 4) also argue that is viewed as essential by local authorities to pay the salaries of the ever increasing number of local officials.
11 These were Xiamen in Fujian Province, and Zhuhai, Shantou, and Shenzhen in Guangdong. When Hainan Island was later separated from Guangdong to become a province in its own right, it was established as the fifth SEZ.
12 China News Service, 6 December 1995.
13 See also Lardy (1998, 2002).
14 Jiang Zemin's speech to the 16th Party Congress calling to construct a '*xiaokang*' society officially translated *xiaokang* as 'Well Off'.

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Part III

Conflict within the Neo-liberal Camp

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8

The Wall Street–Treasury–IMF Complex after Asia: Neo-liberalism in Decline?

Ben Thirkell-White

In recent years there has been a growing debate about the significance of a shift in orthodox development policy from the Washington Consensus of the 1980s to an emergent post-Washington Consensus (PWC). For some, this reflects a genuine move away from the free market fundamentalism of the 1990s towards a new focus on poverty, civil society and the institutional underpinnings of markets (Stiglitz 1998b). For the more pessimistic, it simply represents a new form of intervention that aims radically to re-work societies in the image of neo-liberal capitalism (Best 2003; Cammack 2004b). What is clear is that the new agenda is still strongly market-focused (Fine 2000), but also far more wide-ranging and complex than the 'high neo-liberalism' of the 1980s, recognising that markets are underpinned by social and even authoritarian institutions.

In this essay I will argue that the new agenda represents a contested and unstable adaptation to changing political conditions. While much has been written about the hegemony of neo-liberalism and the solidity of the historic bloc that sustains it, historic blocs, as Gramsci was clearly aware, are frequently subject to challenge and require constant maintenance. Although ideas may not be determined by social forces in any direct way nor can they be completely detached from them. As we have already seen in Part II of the book, the neo-liberal agenda, like all ideological projects, has been difficult to implement and has had to respond to a variety of political situations. In the process, the ideological consistency and coherence of the ideas behind the high neo-liberalism of the 1980s has been fractured and reconfigured by the social forces it has confronted.

Challenges to the neo-liberal agenda have also had to be dealt with politically in Washington, not least because international financial institutions (IFIs) respond to both the changing political climate in shareholder countries, and to the 'results' of the neo-liberal experiment (as they are perceived politically in core countries). Thus, the future of the neo-liberal development project will be strongly shaped by the political processes through which the core of the system reacts to the difficulties of implementation. If we want to understand what the PWC is, and where it is going, the political processes by which IFI policy is shaped and re-shaped provide a critical insight. In particular, this essay considers the politics of US policy towards the IMF in the wake of the Asian crisis.

I will argue that the PWC agenda does indeed represent a real change from the more simplistic neo-liberal approach of the 1980s. Not only are the ideological constraints on the new agenda far less tight, but the economics profession is developing a more wide-ranging conception of 'good policy' and a growing acceptance of 'market failure' that potentially justifies a wide range of development-friendly interventions.

Yet the Washington Consensus was always sustained by more than ideological conviction. These were necessarily embedded in specific global institutions, global power structures, and a particular historical juncture. While some parts of the new post-Washington agenda were implemented during the 1990s, largely because they did not threaten the core political relationships that operated through the IFIs, other parts did pose real political threats. What we see, then, is an increasingly contested set of political relationships forming around the politics of development finance in particular, which threatens to fracture the Washington Consensus and the hegemony it enjoyed in the 1980s.

This chapter will identify the political forces promoting and resisting change within the neo-liberal camp, beginning with a brief discussion of the politics that underpinned the Washington Consensus and the factors that have triggered a change in the economic 'common sense' that underpinned it. Specifically, it examines the political controversy in Washington surrounding IMF interventions in Asia and at the way that controversy has shaped Bush administration policy towards the Fund.

The post-Washington 'consensus' and its political significance

Consensus is a relative term. Economists widely proclaim their ability to disagree and there never have been precise adjustment policies for any

particular country that meet universal approval amongst neo-liberal policy makers. However, Williamson's point in describing a 'Washington Consensus' was to show that the boundaries of disagreement about balance of payments adjustment in the 1980s were unusually narrow. It was possible to talk of a 'conventional wisdom embraced by all serious economists' (Williamson 1983: 1334). This wisdom rested on the proposition that the brute shortage of finance involved in balance of payments crises forced governments to spend less. At the same time, once government 'got out of the way', markets would function better, increasing growth and resolving financing constraints. Cutting back on government would both balance the books and promote growth. As Stiglitz points out:

> the success of the Washington consensus as an intellectual doctrine rests on its simplicity … it focuses on issues of first-order importance, it sets up an easily reproducible framework which can be used by a large organization worried about recommendations depending on particular individuals' viewpoints. (Stiglitz 1998b: 6–7)

It was a simple message, commanding widespread expert support, which addressed current problems in a way that could be justified as being largely apolitical. The key problem was that the Washington Consensus programme didn't work terribly well, even in its own terms. IMF programmes had some effect on the balance of payments but achieved few of their other goals. Countries' ability to mobilize investment in response to 'better' policy was particularly disappointing (Killick 1995a).

As early as 1989, the World Bank began to argue that part of the problem in Africa, at least, was the institutional environment within which adjustment was taking place (World Bank 1989b). The answer that emerged from this observation was to add various kinds of institutional reform to the Washington Consensus and, relatedly, to work harder at ensuring countries 'owned' (and therefore implemented) reforms (Harrison 2004). This newfound economic interest in institutional issues coincided conveniently with post-Cold War enthusiasm amongst bilateral donors for democracy and human rights promotion, in part as an attempt to justify continuing aid budgets in the new security environment (Lancaster 1993; Stokke 1995).

The Fund was much slower to join the good governance bandwagon. Its mandate and expertise are narrower than the Bank's relatively broad development remit and it was more difficult for the Fund to justify an interest in governance.[1] However, the growth of political conditionality

elsewhere and the success of the then World Bank president, Wolfensohn, in redefining issues like corruption as technical problems gradually paved the way for a more ambitious agenda, formally announced in 1997 (IMF 1997). At the IMF too, the new agenda was essentially about broadening the Washington Consensus to include regulatory and, to a lesser extent, administrative issues. The acknowledgement of 'market failure' that stood behind the institutional agenda, together with the need to replace security justifications for development spending with something more humane, has also opened the way for a greater concern with poverty reduction.

For the Fund, though, the new agenda needed to be justified in terms of its traditional mandate. The resurgence of private capital flows in middle-income countries had provided a technical link between 'good governance' and the balance of payments (Dhonte 1997). Inconsistent and non-transparent government policy or judicial decision making risk undermining market confidence, triggering capital outflows. The Fund could help by both promoting good government procedures and by 'locking in' good policy through conditionality. In other words the Fund's governance agenda could be closely tied with the argument that it can have a 'catalytic effect' on capital inflows to emerging markets.[2]

The Fund's governance policy, then, is portrayed as supplementary to its long-standing macroeconomic agenda.

> the staff should be guided by an assessment of whether poor governance would have a significant current or potential impact on macroeconomic performance in the short and medium term and on the ability of the government credibly to pursue policies aimed at external viability. (IMF 1997)

Exactly how important governance would be was to become apparent when the Asian crisis struck. Although actual practice in the crisis countries (particularly Korea) had been somewhat heterodox, the Bretton Woods Institutions had put a lot of work into promoting their previous success as the result of market-friendly integration with the global economy (Wade 1996; Gore 2000). Put somewhat crudely, the IMF now faced the choice of either acknowledging that there were problems with the way international financial markets operate (and abandon the neo-liberal view of 'natural' capital market efficiency) or pushing forward its governance agenda by looking to a complex institutional fix.

The Fund showed that it was willing to interpret an extraordinarily wide range of governance measures as having macroeconomic significance. It responded to crisis by maintaining its faith in the advantages of free capital markets but arguing that a wide range of institutional requirements had to be met to ensure that such markets functioned properly (Fischer 1998; Lane, Gosh *et al*. 1999). IMF conditions imposed in the notorious case of Indonesia, for example, involved legislation on: corporate governance, central bank independence, bankruptcy, competition, prudential regulation, off-balance sheet government financing, and financial and corporate sector restructuring (Government of Indonesia 1998).

The Washington Consensus agenda, then, has faced a series of powerful practical challenges that forced policy makers to adapt its central tenets. While its supporters continue to insist that there is nothing fundamentally wrong with markets there is a recognition that the institutional (and, to some extent, social) supports required to make them work properly are far more demanding than had previously been thought. Such a response remains very much in the spirit of neo-liberal ideas. Sophisticated neo-liberal theorists like Hayek (1973) had never suggested that markets (or indeed individual freedom) can exist without the state. What is characteristically neo-liberal is the insistence that markets and the individual are the *priority* values that governments must ultimately serve, creating the conditions in which individuals can exercise their freedom, including the freedom to take part in market exchange. Thus, the Fund's Asian programmes were designed to reconfigure Asian states in a way that was supportive of free capital markets.

Politically, the problem was that the new governance agenda risks moving away from the simple, clear certainties that were so politically valuable to the Washington Consensus. Even assuming, for the moment, that the Fund's Asian policy was optimal, it involved complex institutional artifice of a kind that fits uncomfortably with the neo-liberal theoretical tradition. Hayek (1973), for example, makes a distinction between 'law' and 'legislation'. Legislation is problematic because it involves the deliberate design of institutions by a law-maker, for a particular purpose. For Hayek at least, the central point of the Great Society is to allow the spontaneous evolution of society, making use of the combined knowledge of millions of individuals. Institutional design is always dangerous as it uses too little of this information and may disrupt the naturally evolved liberal social order. Hayek therefore had a strong preference for the 'spontaneously developed' common law and wanted to keep legislation to an absolute minimum. While the hope that there

could be no state at all is recognised as utopian, that there must be some scope for both regulation and public action is nevertheless only grudgingly accepted.

Hayek's political agenda was concerned to discredit any kind of 'social engineering' of the type that might lead to totalitarianism. The same arguments about the spontaneous naturalism of the market order, though, are also useful to the IMF in minimizing the extent to which conditionality is seen as a political intervention in the affairs of sovereign states. While it is useful to portray market-friendly interventions as simple common sense that encourages governments to do the simple things and not overreach themselves,[3] the sheer existence of such a broad reform agenda already creates a problem for the neo-liberal project. If legislation can reorganize the banking system, why can't it also reorganize labour markets? Hayek's answer is that law must always affect all people equally and must not seek to advance the interests of one group (e.g. labour) over another. However, that is clearly a very difficult test to apply in practice and leads to shakier boundaries between acceptable and unacceptable state action.

The muddying of the neo-liberal waters has had its knock-on effects. The breadth of the new agenda and its increasing ideological eclecticism opened up greater space for debate amongst economists. The Washington Consensus had been a reflection of what mainstream economists could agree about. There may be a post-Washington Consensus that 'more' needs to be done and that the 'more' in question has something to do with institutions as a response to market failures. However, there is less consensus about what kind of 'more' is involved. Compare, for example, Williamson's view of 1980s crises with Eichengreen's view in the late 1990s:

> Traditional crises respond to traditional medicine. We know how to diagnose them and how to treat them … the problem for the future will be how to cope instead with 'high-tech' crises with a dominantly financial as opposed to macro-economic component … and it is much less obvious how to deal with these … problems. (Eichengreen 1999a: 3)

The result was a noticeable breaking of ranks amongst mainstream economists in the wake of the Asian crisis. For a conservative neo-liberal hard core, the crisis had demonstrated no problems at all with free capital markets. It was driven by various kinds of politically created moral hazard that reduced market participants' incentives to carry out a proper

risk analysis. A hard lesson would encourage financial markets to do their job and (in a modest concession to the new macroeconomics of information) that could also be helped by enhancing requirements for information disclosure (Calomiris 1998; Feldstein 1998).

For another group of mainstream economists, however, the Asian crisis confirmed that crises springing from multiple equilibria in financial markets were much more than a theoretical curiosity (or even a historical phenomenon that had been eradicated). The IMF was right to talk about the importance of more sophisticated institutional fixes and a more complex agenda, but it was also time to ask whether it should also abandon capital account convertibility in the interests of saving the globalization project as a whole (Bhagwati 1998; Stiglitz 1998b). Once market failure is acknowledged, the simple certainties of neo-liberal models lose much of their intellectual bite and there are few technical barriers to advocating a wide range of state interventions.[4]

At the level of ideas, then, the post-Washington Consensus is best seen as an adaptation to real world problems springing from the weaknesses of the Washington Consensus, albeit one that continues to be driven by the neo-liberal utopia of self-regulating free markets that both maximize individual freedom and enhance aggregate welfare. However, the credibility of that agenda has been dented so seriously that perspectives on implementation have had to change to allow more space for state involvement than before, although still designed to promote rather than replace the market. In opening up discussion of the state, though, the neo-liberal agenda has shifted into much murkier theoretical territory and enabled some limited political debate (Gamble and Turner 2005). It is that political debate that has made space for both the more social and the more authoritarian conceptions of development policy introduced at the beginning of this chapter.

Aftershock – Congress and political scrutiny

So far I have argued that the neo-liberal development doctrine is becoming more insecure at the level of ideas. In this section and the one that follows I will examine the political interests that both underpin and challenge the neo-liberal agenda as they are manifest in the politics of US–IMF relationships. As we will see, while the US is not able to achieve everything it wants through the IMF, the Fund is itself more anxious to listen to the US Treasury than it is to anyone else and it is difficult for the IMF to pursue policies that the US does not approve (Woods 2003).

The Asian crisis provided a good opportunity for surveying the breadth of interests that may try to exert an influence on US Treasury policy, not least in the high-profile debates in Congressional Committees that took place throughout 1998. What was said in those debates and the parties that managed to obtain access and contribute provides at least some indication of who is able to mobilize politically to influence IMF policy and how Congressional objections to the IMF filter into Treasury policy.

Prior to the Asian crisis, the post-Washington Consensus had the potential to satisfy a wide range of interests. To neo-liberal true believers, transparency and the rule of law could be portrayed as simply a more complex set of technical interventions to perfect markets. To left-wing critics they could be seen to represent a new concern with democracy and perhaps even the social aspects of development. However, the sheer cost of the crisis in Asia prompted both sides to take a closer look at how mutually satisfactory rhetoric translated into policy and outcomes and what this meant for the Fund's policies.

Although much is said about the Bush administration's drift towards unilateralism and the rise of neo-conservatism, there has been little evidence that these influences have become decisive in debates about financial policy towards middle-income countries. Not only are these countries too politically and economically powerful to be attractive targets for the more radical end of the neo-conservative agenda, the traditionally 'technocratic' orientation of both Treasury and the IMF has also provided effective insulation against such intrusions in those institutions. Instead, the main conflicts within the neo-liberal camp are those between left-wing interests keen to push forward the social aspects of the PWC, drawing support from the realization that implementation of Fund programmes require broader social support, and those forces who see answers in more insulated and, indeed, more authoritarian techno-managerial options. While the Bush administration is inclined towards the latter approach, the difficulties of achieving its objectives continue to offer at least a glimmer of hope for a more radical conception of post-Washington Consensus political economy.

Context

Traditionally, the IMF has been a low-profile institution in the US and few Congressmen have paid attention to its activities. More recently, though, a number of factors have given the Fund a higher political profile. Increasingly, Congress has been flexing its muscles in the area of foreign economic policy making since the early Reagan administration.[5]

Asia (particularly Japan and Korea) had been a key target for Congressional resentment on the question of trade policy and dumping, which had led to the introduction of Super 301. Successive administrations had been forced to fight hard to show that the WTO was helping to break up the structural impediments to trade with Asia, rather than just preventing the US from protecting its markets. On the other hand, the early Clinton administration came under fire from traditional free trade advocates for flirting with a strategic industrial policy of its own.[6] Later, it focused on pushing forward the GATS agenda in the face of considerable opposition from both Europe and developing countries. Services in general, and financial services in particular, were seen as an opportunity to create real benefits for the US from further trade liberalization, particularly in Asia which was a prime target for financial services liberalization.[7]

To maximize the benefits of financial services liberalization, it was also important to ensure capital account openness, creating an indirect link between a well-functioning IMF and the financial services sections of GATS. The Mexican crisis highlighted the connections between trade liberalization and the IMF, when the Clinton administration had to mobilize a huge bailout package to support an already controversial NAFTA. Significant sections of Congress felt that, in the process, the administration had used the Exchange Stabilization Fund to undermine Congress' constitutional right to exert pressure on administration policy through its power of the purse.[8] Treasury–Fund relations were therefore very much on the agenda before the Asian crisis hit.

The other key factor influencing subsequent debates was the increasingly sophisticated lobbying campaign on structural adjustment operated by segments of the development NGO community in Washington since the early 1990s. Groups like the Centre for Concern and Friends of the Earth US stepped up their Congressional lobbying in the mid-1990s. Later, links between Jubilee 2000 and Christian groups were particularly successful in putting debt relief on the political agenda: something that is still evident in Congressional debates (O'Brien, Goetz *et al*. 2000). The incentives that structured Congressional interest in foreign economic policy made Congressmen susceptible to this latter approach. Because the electorate at large has been fairly ambivalent in this area of policy except where issues have an obvious and immediate impact, Congressmen have been, to some extent, free to pursue their broader personal and political preferences. At the same time, informed participation in committees can be good for one's profile within Congress and the party and may be a way of building support from relevant sections of the 'attentive public' (Lindsay 1994). The NGO movement can

provide left-wing Congressmen with well-developed policy positions, which can provide solid debating ammunition and hold out the prospect of at least moderate electoral dividends.

The funding debate in 1998

What made headlines in 1998 was an emergent anti-IMF alliance between left- and right-wing Congressmen, brokered by Bernie Sanders, an independent left-winger (*Financial Times*, 23 January 1998 (US edition); *American Banker*, 15 January 1998). In this unlikely alliance, both sides were concerned about a lack of transparency and accountability, which hindered Congressional control over the Fund. They were also concerned about the ways in which IMF programmes bailed out foreign banks at the expense of US and Asian taxpayers.

However, this common base of agreement masked very different underlying motivations. Right-wing concerns were driven by a combination of fundamentalist faith in markets and reluctance to spend money in multilateral fora. The problem with capital flows was that IMF bailouts were undermining incentives for reform in borrower countries and lender banks. Only when the Fund stopped coming to the rescue would banks do their due diligence properly, in turn disciplining governments that pursued poor policy. If markets were left to themselves the system would adapt itself. In any case, bailouts were extraordinarily expensive to the US taxpayer but lack of accountability made it difficult to get value for money:

> We should not commit US taxpayer resources unless and until we can answer the question 'will it be used in a way which protects our national interest?' … the IMF is not an open institution. Some argue that the Treasury Department bureaucrats wield tremendous influence at the IMF … but that is insufficient accountability to the American taxpayer. (Senator Bachus, House Banking Oversight Subcommittee 1998, p. 3).

These views were bolstered by expert opinions emerging from a number of right-wing think-tanks such as the Cato Institute (Calomiris 1998), Heritage Foundation (Vasquez 1998) and American Enterprise Institute (Lindsey 1998).

Essentially this is a 'true believer' neo-liberal position. The PWC agenda involves far too much meddling in politics both domestically and internationally. It risks interfering with the operation of markets which, if left to their own devices, will exercise the kind of market

discipline that is required to produce good policy. That echoes with Republican ambivalence towards multilateral institutions. It also reflects anxiety about the broader foreign policy implications: it is a very different thing to impose externally designed institutions on countries than it is to allow them to respond to the natural pressure of the market: 'A nation's desperate need for short term financial help does not give the IMF the moral right to substitute its technical judgements for the outcomes of the nation's political process' (Feldstein 1998). Financial globalization is best supported and legitimated, then, on the basis of a light touch which relies on the inherent efficiencies of international financial markets.

On the left, concern was driven by the equity consequences of bailouts. They meant large resource transfers from poor Asian and American workers to large international investment banks. Critics questioned the artificial distinction between 'technical measures' in programmes (such as central bank independence and bankruptcy legislation) and 'political measures' like labour rights, which were excluded.[9] Left-wing Congressmen were torn between a deep suspicion of the Fund as an institution and the view that, if the Fund was set to stay in business, it should be pursuing more 'positive conditionality' (particularly in relation to labour rights and the environment). The agenda was a mixture of the anti-globalization concerns of the AFL-CIO and the fruits of longer-term lobbying by development NGOs. Although US NGOs did little direct lobbying on the Asian crisis,[10] long-standing concerns about IMF 'austerity' featured strongly in complaints from the left.

The left-wing agenda, then, was a rejection of the modest adjustments proposed by economists like Stiglitz or Bhagwati. Either the globalization project should be abandoned and the IMF disbanded, or it should be 'humanized' by grafting a labour-welfare–environment agenda on to the neo-liberal position, something that would represent a clear break with the neo-liberal conception of legitimate public action.

Finally, a day of hearings was devoted to US industrial interests. Contributors included Boeing Asia, Micron Technologies (manufacturers of computer memory chips), the American Forest and Paper Association, the American Farm Bureau and IPSCO Steel.[11] These groups expressed enthusiasm for doing anything necessary to create a speedy recovery in Asia, coupled with a desire to attack long-standing Asian government assistance to competitors and prevent any kind of bailout that might threaten their future commercial positions. This agenda is largely ambiguous about competing PWC and WC views. Indeed,

US business has been ambiguous about social policy and development strategy in general, so long as economies remain broadly prosperous and there is continuing market access. Nevertheless, business was strongly resistant to any sanctioning of the other possible departure from neo-liberal orthodoxy: industrial policy.

Seattle and the anti-globalization movement

Another major indication of the public mood on these issues was provided by the growth of mass anti-globalization protests first at Seattle and then at other international economic meetings, including the Washington annual meetings of the Bretton Woods institutions. This scale of social protest had not been seen in the US for many years and raised significant anxieties even within the Treasury. However, because the protestors came from a range of different groups with different aims, from environment and labour groups to anti-debt development campaigners, their direct effect on political debates around IMF reform is hard to assess.[12]

Perhaps indicative is a paper published by key Clinton aides in *Foreign Affairs* prior to the 2000 presidential election. The article is called 'New World, New Deal: a Democratic Approach to Globalisation'. It acknowledges an 'emerging backlash against globalisation in the United States' but blames it on domestic factors: 'rising income inequality, job insecurity in a rapidly changing and harshly competitive environment, and a sense of powerlessness and uncertainty about the future'. The solution is 'policies to sustain America's expansion and give Americans the tools they need in the global marketplace'. In practice that means lifelong education, health care and social safety nets. In other words, the solution is largely a domestic one of paying more attention to policies that compensate for globalization's ill-effects in the hope that that will head off pressure about more international issues (Bowman Cutter *et al*. 2000).

Summary

Together, these various interventions appeared to represent a significant broadening of the agenda of debate around development finance. The catalyst was the cost of crisis for American taxpayers, which concentrated people's minds in one way or another on who exactly was benefiting from the Fund's current agenda. A modest political challenge to an agenda that seemed to cater only to Wall Street became apparent. However, there was more agreement about what was wrong with the IMF than about what next steps should be. In the next two sections we will see that those divisions and a variety of institutional

factors limited the extent to which protests actually created a change in Treasury policy.

From interests to influence? Treasury policy toward the Fund

The Treasury's job is to steer a path through the different political interests in Congress in a way that suits the administration's broader political goals and balances the Treasury's economic views about 'good' policy, with the political consequences of particular options. Treasury remains solidly in charge of policy towards the IMF, appointing the US Executive Director (USED) and keeping her/him quite tightly briefed.[13] Although Congress has become much more interested in the IMF in recent years, its oversight has historically been quite weak. At best Congress can introduce legislation requiring the USED to use her 'voice and vote' to promote particular goals within the IMF. That legislation can then be backed by the threat to withhold future IMF funding – and legislation passed in 1998 tried to facilitate that process by introducing more formal reporting requirements, under which Treasury has to report annually on its attempts to implement the new legislation.

However, that sanction is weaker than it looks. Weighted voting in the Fund, together with the practice of confidential Executive Board discussions, make it difficult to check on the Treasury's actions. EDs make a large number of confidential decisions in any year and the Treasury has clearly become adept at keeping track of those interventions that can be said to be compatible with the 1998 legislation (US Treasury 2000).

Perhaps equally importantly, it is doubtful that Congress ever would actually refuse IMF funding (though, of course, it has been willing to do so at the UN). It is certainly the case that no one seriously thought the IMF's critics would triumph in 1998.[14] The mainstream opinion was in line with the industrial lobby: in favour of bailing out Asia (because to do so was good for American jobs and for strategic relationships with the region) but getting as much market opening as possible in the process. Nonetheless, determined critics can make life very difficult and complicated for Treasury. Sanders' staff were quite successful at keeping debates in the media. The Republican side of the coalition used their House majority to raise objections in Congressional committees and prevent a vote on the floor of the house. That was partly because of genuine concerns about the IMF and partly because IMF funding was important to the Clinton administration and therefore potentially a useful bargaining counter for more important issues.

In the long term, Congressional criticism has limited impact on Treasury policy. International financial policy, in particular, is very much an elite concern. It is very difficult to get the broader electorate excited about it (even the brief flowering of anti-globalization movements in the late 1990s reflected a relatively narrow constituency). Only specific 'attentive publics' are important. For Treasury, that means, in order of importance: Wall Street, main street, members of key Congressional committees, and development NGOs (though some of the relevant 'key Congressmen' may share NGO views).

The post-Washington Consensus approach seemed to offer something to each of these groups, while fitting with the broader logic of Clinton foreign policy. Clinton's solution to the dilemma of justifying foreign engagement in a post-Cold War environment was the doctrine of enlargement. Foreign policy would spread democracy and markets across the world, securing new allies and ensuring that foreign engagement would have direct benefits to ordinary Americans (Talbott 1996). The services agenda in the WTO (and financial services in particular) provided demonstrable benefits to the US economy, answering those that argued the WTO's goods based agenda had little to offer (Dobson and Jacquet 1998). At the same time the more social end of the PWC agenda resonated well with the drive for democracy promotion, thus diffusing more liberal criticism at the margins.

Unfortunately, the sheer cost of the financial bailouts required to maintain financial liberalization in the case of Mexico and then Asia mobilized increasing political unease about the PWC on both sides of the political spectrum. For the left, a more socially oriented agenda held out promises that it never fulfilled and certainly did not compensate for the damage globalization and NAFTA were seen to be doing to US workers. For the right, neo-liberal purity had been sacrificed for a dubious interventionist agenda that was expensive and that wasn't delivering.

These developments have left successive administrations with very difficult choices. The bottom line is that while they want further financial liberalization, it must also be costless. At the same time, the social agenda cannot be completely ignored as it is a crucial part of the way the Bretton Woods institutions are legitimated. NGOs are becoming increasingly sophisticated at pointing to the gap between rhetoric and reality, and their criticism risks whipping up broader objections amongst the general public. So, for example, it is clear that the Clinton administration was rattled by anti-globalization protests, though it was inclined to see them as a largely domestically driven phenomenon that could be dealt with by humanizing globalization at home (Bowman Cutter, Spero *et al*. 2000).

After Asia: a New International Financial Architecture?

Debate about a New International Financial Architecture has seen two US administrations struggling to resolve these political tensions, with a particular focus on reducing the costs of crisis (which is the real catalyst for dissent). Although the Clinton administration's policy on this question was never radically different, I will concentrate here on the current Bush administration's response to the findings of the Meltzer report (International Financial Institution Advisory Commission 2000).

The Meltzer report sought to address the problems of crisis by creating permanent Fund influence over middle-income countries. In some ways, that can be seen as part of a neo-liberal preference for the rule of law rather than Executive discretion, but it was also a potentially authoritarian agenda in that the rules would need to be enforced, giving rise to conflict between right-wing criticism of overpowering IMF interference and this drive to increase Fund power. This is reflected in a certain ambiguity about how wide a range of measures should be included in this influence – wider than the Fund's traditional mandate but less wide than its Asian agenda. The idea was that only countries pursuing 'good' policies would be eligible for IMF support – when crises were caused by contagion rather than bad policy. Even then, borrowing would be more expensive and shorter-term. At the same time, better data provision and more surveillance of the capital account would make contagion-based crises less likely. Finally, the IMF was to switch from its increasingly broad development agenda of the 1980s to a very narrow focus on emerging market policy (eliminating long-term lending to low-income countries). That was, particularly, to isolate structural and social policies within the World Bank (possibly to alter the structure of political debates about the Fund) but there was also a suggestion that OECD countries should be able to opt out of surveillance.

In practice, Bush administration policy has been one of 'working towards' these goals rather than actually achieving them. The nearest thing to pre-qualification requirements that anyone actually introduced was the Clinton-era Contingent Credit Line (CCL). The CCL was a special anti-contagion facility that countries could sign up to, which would provide extra reserves to combat capital flight. The cost (apart from fairly punitive interest rates) was that countries would lose eligibility if they ceased to comply with a set of core standards and codes. Worse still, Fund shareholders failed to push through the logic of the facility and

make it conditionality free. It should not, perhaps, be surprising then that no country has signed up.

Treasury speeches say surprisingly little about the related Standards and Codes process. That may be because the agenda encompassed by them has become so broad and because G8 attempts to police the new standards have been heavily watered down by G24 opposition (Thirkell-White 2004). In the end, an extensive list of standards has been produced, organized into 30 *categories*. A mere 12 have been identified as cores standards but these cover a huge range of issues that go well beyond what the Meltzer commission wanted to see as the IMF's appropriate core focus.[15] Treasury spokesmen have not criticized the scope of the Standards and Codes process but only refer to those that involve greater information provision to the financial markets. Partly because the agenda is so large and diffuse, it is difficult to identify any huge progress in implementation, except perhaps in the adoption of the IMF's two data standards (Walter 2003).

Instead of the full Meltzer agenda, the Treasury has had to settle for increased interest rates on Fund borrowing, with particular incentives for early repayment (again introduced under the Clinton administration). It is also still pressing the Fund to set upper limits on lending and to provide clearer criteria for 'exceptional' loans but the Fund has been reluctant to do so. Treasury claims that the Fund's programme with Turkey involved tighter focussed conditionality and more preconditions than in the past (both Meltzer report preferences for bolstering the IMF's coercive resources). The administration has also been anxious to claim that markets are showing strong signs of being less prone to contagion than they have been in the past, suggesting that it will be easier to refuse to lend to problem cases. It puts this down to the increase in available data that the IMF's data dissemination standards have produced and to better incentives for market players to carry out due diligence.[16]

If we compare that policy with what seemed to be taking place under the Clinton administration, it does look like a narrowing of the PWC agenda towards a tighter neo-liberal framework, though still a broader framework than the 1980s agenda. Attempts to narrow the IMF's mandate are perhaps more serious than they were under Summers:

> The basic principle is clear: programs must be focused on the necessary and sufficient conditions for restoring stability and growth. Intrusion in areas that are not related to that goal carries costs that exceed the benefits, and may undermine the legitimacy of the IMF's advice. But the stability of banking systems, issues of social cohesion

> and inclusion, and the capacity to enforce contractual arrangements – these will all, in may cases, be critical to restoring confidence and they can and should be addressed as a condition for IMF support. (Summers 1999)

However, the differences are fairly modest. Interest rate changes at the Fund and the CCL were both introduced under former Clinton appointee, Larry Summers. The Clinton administration's response to the Meltzer report was quite critical, but the areas it criticized were largely those that have been conveniently forgotten by the present administration (radical pre-qualification requirements and exempting the OECD countries from Fund oversight). Arguably, the Bush administration's reduced interest in the Standards and Codes agenda merely reflects the political reality that no one has the political power to secure its implementation at least over the short term.

If the Bush administration has failed to make the Fund a great deal less interventionist, it has also failed to do much about bailouts. It has continued to find itself involved in massive lending packages to Turkey and Argentina. Treasury staff remain hard-pressed to spin these as significantly different from what went before and Argentina's loans from the Fund are actually the largest in history.[17]

The underlying problem, of course, is that the Bush administration is just as committed to financial liberalization as the Clinton administration was. Indeed, in keeping with the more unilateralist Bush agenda, the administration has been busily pressing that agenda forward in bilateral trade agreements. So, for example, the Chilean and Singaporean authorities were pushed reluctantly into including a promise never to implement new capital control measures (including 'Chilean-style' short-term prudential controls) as part of the bilateral free trade agreements signed in 2003. Given the shift in intellectual climate, Treasury staff seem unable to provide an economic defence of how that position might operate in the general welfare – it therefore looks more like an exercise of brute power.[18]

If capital accounts are left open crises will most likely continue to occur (particularly given the limits to attempts to push through radical structural reforms globally). Logically, the only way to avoid continuing bailouts is to have a far more intrusive system of debt workouts that will involve serious haircuts for lenders. Although the politics of SDRM (Sovereign Debt Restructuring Mechanism) debates have yet to be fully researched, there are some signs that the Bush administration did flirt with some kind of mechanism early on. Treasury Secretary O'Neill made

positive noises about work-outs and Anne Krueger, who pushed the proposals hardest, was a Bush appointee as Deputy Director of the Fund. However, any enthusiasm there may have been was certainly quashed by concerted Wall Street lobbying. In any case, some of the Latin American countries were also concerned that anything remotely radical would impair their access to financial markets, even in the good times. The proposal has clearly expired and when US Treasury figures talk about a Sovereign Debt Restructuring Mechanism now, all they mean is the inclusion of collective action clauses in sovereign bond contracts.

Essentially, the Treasury has failed to solve the problems that caused so much trouble around the Asian crisis. Its closeness to Wall Street prevents it from countenancing restrictions on capital flows or a more concerted response to debt workouts. At the same time, despite the Republican rhetoric, it cannot ignore the political consequences of financial crisis – political instability abroad in highly strategic emerging markets, including the threat of a resurgent Latin American left, and pressure from the NGO and anti-globalization lobbies at home. If there are not going to be workouts there will have to be bailouts and that involvement will keep Congressional debates alive, including debates about the emerging social agenda.

Conclusions: implications for the future of neo-liberalism

Recent years have witnessed a growing and more sophisticated challenge to the neo-liberal mainstream at both the political and ideological levels. Politically, the growing cost of financial crisis, combined with broader anxieties about globalization, has mobilized greater political scrutiny of financial policy than existed in the past. Ideologically, the failure of neo-liberal programmes has triggered a far greater interest in market failure amongst the economics profession. Once market failure is acknowledged, the case for or against various types of state intervention becomes a central part of the development debate. There is genuinely more interest in public action and poverty reduction which is not only producing results in some places but is sometimes difficult (though not impossible) to reconcile with neo-liberal tenets.

However, the new trend is still resisted, particularly when it threatens the agenda of market liberalization. Despite the growing acceptance of financial market failure, the mainstream policy solution is still for public policy adjustments as far as possible rather than any move to rely less on markets. The same pattern can be seen in the 'new poverty agenda'

with its growing focus on participatory public action. While the PRSP process does represent a genuine departure in development practice, when it comes too close to altering core policies it is resisted – so, for example, World Bank structural policies are often negotiable but the IMF's macro framework is not. Similarly, Ravi Kanbur was allowed to edit a report on poverty that talked about local empowerment, but only as a subsidiary element to the growth agenda (which is ultimately connected with market opening).

It is not difficult to understand the political economy of this situation. The actors with the most direct interest in IMF-related affairs and with the best contacts in the Treasury work in Wall Street. Even when Wall Street isn't telling the Treasury what to do, Treasury personnel have been trained in the financial services industry and move in that kind of social circle. The structure of IMF decision making, in which policies are decided by lender countries and pursued by borrower countries, helps to limit debate about the political and economic consequences of Fund policy. It is rare that the 'general public' in developed countries are sufficiently affected to become involved in debates about Fund policy and, even then, the Treasury is relatively protected from broader political input.

Nevertheless, the Treasury and the Fund are both forced to respond in the face of repeated and sometimes high-profile failures in development policy and to accommodate a greater range of political pressures. At the moment, the concern with reconfiguring societies in the image of global markets (Best 2003) has proved most compatible with the structure of political decision-making within Treasury and the Fund. However, the logic of changing perceptions of 'good policy' within the economics profession also implies a more social agenda (albeit, as Jayasuriya points out in chapter 13 of this volume, a particularly market-centred conception of the 'social'), and it is this part of the argument that has been less compatible with the politics of IMF decision making. Where social policy does not interfere with Treasury's core interests there is modest scope for change but when it comes to capital controls and debt workouts for example, issues that directly contradict Treasury's core interests, Treasury's views prevail.

That does not mean, though, that all is well in the Wall Street–Treasury–IMF complex. The problems that fuelled controversy over Asia have not disappeared. The ideological claims of 'high neo-liberalism' look less secure. In particular, the Treasury has not come up with a solution to ongoing financial crises, as the case of Argentina illustrates. Even if attempts to re-engineer middle-income countries to accord with an

Anglo-Saxon model of finance were potentially viable, a unilateralist US is unable to impose that model on relatively large, powerful middle-income countries (the situation may be different, of course, in Africa or the Middle East). Implementing such a challenging new agenda also requires that the base of social support for IFI policy preferences is broadened (Thirkell-White 2005). Even given better implementation, however, many within the neo-liberal camp are doubtful that this agenda will succeed in eliminating crises (Radelet and Sachs 1998; Stiglitz 2002). If the number of potential bailouts increases, we may expect an intensifying conflict between the Congressional left, on the one hand, pressing for a more socially oriented IMF policy as the price for funding and the political right, arguing for a more techno-managerial approach with fewer bailouts and more stringent conditions on assistance to debtor countries.

Notes

1 The Fund had traditionally claimed to simply calculate the measures required to create a particular level of adjustment, leaving the political task of deciding where cuts were to be made to governments (Nowzad 1982). It was inevitably reluctant to abandon this politically convenient line of argument.
2 For a critique of the Fund's claims about catalysing private finance see (Bird 1997; Bird and Rowlands 1997).
3 The World Bank's 1997 report on the role of the state talked about matching states' role to their capabilities (World Bank 1997b).
4 A good indication of how far a market failure agenda can take mainstream economists from standards prescriptions is (Stiglitz 2002).
5 In the 1950s, by contrast, Congress tried to tie its own hands by delegating much of its constitutional authority to regulate 'Commerce with Foreign Nations' to the President (Bayard and Elliott 1994; Destler 1995). A current shift towards activism is part of a wider trend in foreign policy making (Lindsay 1994).
6 On the strategy behind that, see (Tyson 1992). For the critique see Kreuger (1995: 498).
7 Korea and Indonesia were part of Clinton's 'Big Emerging Market' initiative (Stremlau 1994). For specific comments on services liberalization see (United States Trade Representative 1997).
8 This was ultimately one of the criticisms made by the Meltzer report (International Financial Institution Advisory Commission 2000).
9 See, particularly, Congressional testimony from Sanders and Frank (House Banking Oversight Subcommittee 1998; House Committee on Banking and Financial Services 1999).
10 No one that I interviewed who had been involved in debates was aware of significant NGO impact. Jean-Marie Griesgraber, an experienced lobbyist

working for Oxfam US at the time, said that she had not been involved at all. There were some indications that Friends of the Earth had lobbied about forestry industries in Southeast Asia.

11 See transcripts for the Subcommittee on oversight of the Committee on Banking and Financial Services, US House of Representatives, 3 February.

12 For a variety of academic interpretations of the significance of events in Seattle see *Millennium*, vol. 29, no. 1.

13 See testimony by Geithner, Dawson and Lissakers in (House Banking Oversight Subcommittee 1998).

14 A view expressed in confidential interviews with pro and anti-IMF Congressmen in autumn 2000, Congressional staff on relevant committees and Jim Orr at the Bretton Woods committee.

15 For more on the standards and codes process, see Thirkell-White (2004).

16 See John Taylor's comments in House Subcommittee on International Monetary Policy and Trade (2002).

17 Lending began, of course, under the Clinton administration but has certainly continued under Bush.

18 See Barney Frank's questioning of John Snow in House Committee on Banking and Financial Services (2003).

9

What's in a Name? Neo-conservative Ideology, Neo-liberalism and Globalization

A. Haroon Akram-Lodhi

Introduction

The appellation 'neo-conservative' was first used by Michael Harrington in his 1962 book *The Other America* (Harrington 1997) to describe former socialist intellectuals that had been, in Irving Kristol's memorable phrase, 'mugged by reality', and shifted political affiliation from the left to the right.[1] Despite its provenance of more than four decades, it is only in recent years that the phrase 'neo-conservative' has entered mainstream political discourse. Its entry can be attributed to the attacks of September 11 2001, when, in its search for an appropriate response, the administration of George W. Bush became, for the first time, publicly sympathetic to the 'muscular' foreign policy espoused by figures such as Paul Wolfowitz, Richard Perle, Elliot Abrahms, Abram Shulsky, Steve Cambone, Doug Feith, and 'Scooter' Libby. Emboldened by support both from within the Office of the Vice-President – who had, during the period of the Clinton–Bush transition, placed many neo-conservatives in senior positions in the administration, as well as the Secretary of Defense, within four days of the attacks senior neo-conservatives in the administration advised the president to cease a policy that, in their view, amounted to the appeasement of 'terrorists' such as Saddam Hussein, and replace it with a pre-emptive invasion of Iraq that would reassert the capacity of the US to realize its global political and economic goals (Burroughs, Peretz, Rose and Wise 2004). From this point, the ascendancy of the neo-conservative tendency within the US administration was rapid, as was the expansion of sympathetic voices in the media and in academia. This ascendancy was reinforced by the January 2005 elections in Iraq, which were widely seen as a vindication of neo-conservative policy prescriptions and, more significantly, by the

subsequent confirmation of Paul Wolfowitz as president of the World Bank.

It is argued in this chapter that the apparently rapid rise of neo-conservatism within the US administration is a misleading depiction of recent trends in dominant political ideologies and global social change. This is a proposition somewhat at odds with the contributions in this volume of Richard Robison, Andrew Gamble, Garry Rodan, and William Tabb, which all tend to see, in varying and different ways, the critical trend in modern politics as an extension of neo-liberal values and relationships out of the purely economic sphere and into the wider social and political arena, an extension that involves, ultimately, illiberal political prescriptions.[2] Instead, it is argued that it is not neo-liberalism but rather neo-conservatism that has been a dominant political ideology in the advanced capitalist countries for at least the last 30 years. Admittedly, it has been given different labels during this period, including, in addition to neo-liberalism, Thatcherism, Reaganism, and monetarism. This argument is also different from the propositions of David Harvey (2005) and Peter Gowan (2003a) that neo-conservatism is, in many ways, a logical outcome of prolonged neo-liberalism, in which the near-systemic crisis in global financial markets witnessed in the late 1990s and the early years of the twenty-first century required an aggressive intervention by the US to construct a 'hierarchy of power' and order 'that is both secure and clear' and which adheres to 'moral principle' (Harvey 2005: 190).

The following section will critically discuss the ideas of neo-conservatism, and suggest that these ideas are, in essence, a reification of the hierarchies of actually existing capitalism; market relationships in capitalist economies require the exercise of political power in pursuit of social order. Second, it will be argued that the key doctrinal differences between neo-conservatism and neo-liberalism lie in the role of the state. Third, it is proposed that neo-conservatives seek a deepening of global hierarchies and that globalization, from a political perspective, is consistent with this. Fourth, the chapter will briefly discuss how neo-conservatism has sought to restructure the state, particularly in developing economies, in order to deepen global hierarchies, suggesting that this effort represents an attempt at the de-politicization of economic decision making, a theme central to most chapters in this volume. Finally, by way of conclusion the chapter will ask whether the political and economic philosophy of George W. Bush and Tony Blair, who hold apparently quite dissimilar political ideologies, may be located within the neo-conservative camp.

Neo-conservative ideology

Neo-conservatism has been explicitly constructed as an ideological challenge to the dominant thinking of the post-Second World War period, capitalist social democracy. In this period, booming economies allowed capitalist social democracy to flourish, introducing increased provision of social benefits and public goods, the nationalization of significant numbers of capitalist enterprises, the regulation of market activity, and some attempts at indicative economic planning. However, in the mid-1960s systemic imbalances driven by declining profitability and chronic disproportionalities in production began to emerge as costs rose faster than prices or productivity. They precluded growth, fostered relatively high rates of inflation, and led to a generalized decline in the rate of profit within the non-financial corporate sector (Wolff 2003; *The Economist*, 8 December 2001; Dumenil and Lévy 2000; Brenner 1998; Shaikh and Tonak 1994; Armstrong, Glyn and Harrison 1991). As popular discontent grew, most notably in the developing economies but also in the advanced capitalist countries, neo-conservative intellectuals and politicians began to articulate an alternative vision rooted in a wholesale rejection of capitalist social democracy.

A defining belief of neo-conservatives is that the world and its people are not equal, and that, rather, they are shaped by hierarchies between and within societies (Strauss 1990a). These hierarchies are 'a reflection of natural talents' (Drury 1997) and as a consequence the 'natural human condition' is one of 'domination and subordination' (Postel 2003). According to neo-conservatives, only the elite at the apex of the hierarchy can understand this 'natural' truth about human society and history (Strauss 1990b). This gives the elite insights into how the political economy operates, as well as power over its operation. It also gives the elite a moral clarity that is not held by those who are subordinate but who, nevertheless, are capable of questioning their subordination and in so doing challenging civil order and structures of power. The probability of social conflict reflects a basic neo-conservative pessimism that human nature requires authority. As a consequence neo-conservatives can be critical of individualism, because they think it can upset hierarchy and authority. For similar reasons they believe in the essential fragility of representative democracy. Indeed, in its capacity to engender what neo-conservatives would deem the social decadence arising from a lack of order and authority (Bork 1996), democracy can damage public and private morality and civil life (Bloom 1988). Armed with such clarity and their belief that they can identify both order and decadence, it is not

surprising that neo-conservatives believe that the world can be viewed in terms of good and evil, which only they are capable of defining, and which requires civil authority if society is to transcend the possibility of a continual struggle between good and evil. Neo-conservatism is thus rooted in authentically conservative themes of morality, civil authority, and hierarchy.[3]

These themes are then articulated with a classically liberal emphasis on the need for a free economy. The neo-conservative economic vision sought to re-establish the dominance of the market through internal deregulation and privatization, external trade and financial liberalization, the opening up of economies to inflows of foreign direct investment, and the realignment of exchange rates in accordance with market priorities, while at the same time reshaping the role of the state through lower corporate taxes, fiscal discipline, and monetary rigour (Demont and Lang 1999). This vision represented an attempt to restore the rate of profit in the advanced capitalist economies by cutting real wages and, more particularly, the social wage, in order to prioritize accumulation over distribution. The prioritization of growth was seen to be a pivotal means by which the legitimacy of the neo-conservative vision would be sustained (Kristol 2003).

There are, in this articulation, clear echoes of the politics of Ronald Reagan from the 1960s and Margaret Thatcher from the 1970s, who together sought, quite explicitly, to dismantle capitalist social democracy, particularly in the advanced capitalist countries, following their national election victories in 1980 and 1979, respectively. Both portrayed politics as a struggle between good and evil, with good being represented by the patriarchal family and market fundamentals and evil being represented by internal dissent to their policies and the external threat of the Soviet Union (Dallek 2000; Young 1993). Both Reagan and Thatcher reasserted the role of a particular conception of morality in civic life – for example, when efforts were made to reassert civil authority over 'enemies within'. These enemies could be striking air-traffic controllers, coal miners or rebellious students. In reasserting their version of morality Thatcher and Reagan privileged private property as a bulwark of civil authority, and portrayed public provision as responsible for the emergence of a decadent mediocrity. Finally, despite making noises about equality, their pursuit of market fundamentalism deepened inequality and promoted social divisions. It is thus not too difficult to paint Reagan and Thatcher as having ideas that thoroughly endorsed neo-conservative philosophy.

Neo-conservatives reject capitalist social democracy, but not the social relations of capitalism. In their defence of private property and social

inequality (Drury 1999), the natural hierarchy of neo-conservatism is implicitly the hierarchies of class in general and capitalism in particular. Those who sit at the apex of the hierarchy are, in effect, the capitalist class, who understand that there are limits to understanding and knowledge amongst the labouring classes, and hence their capacity to take action. As Drury (1997: 2) notes, 'bluntly put, neo-conservatives assume that everyone who is rich must be clever and industrious, while everyone who is poor must be lazy and stupid'. Moreover, the knowledge that the capitalist class holds gives them, it would appear, clarity about the essential reality of class relations, and authority over enemies within that must be translated into a civil order, which sustains the dominance of the capitalist class over labour and other social forces (Marx 1982). However, the social authority of capital is not only rooted in economic relations, but also extends quite fundamentally into social, cultural and intellectual life (Gramsci 1971; Strauss 1990a). It operates by fostering the emergence of an individualized consumerist culture that uses the celebration of a commodity fetishism-based mediocrity to trivialize the public provision of social needs and reduce the popular appeal of participatory democracy as an alternative means of organizing social and economic affairs. Despite neo-conservative claims that they have unique insights into the operation of the political economy, and notwithstanding the point that neo-conservatism offers in many ways a surprisingly modernist re-reading of nineteenth-century ideas, this cursory examination of neo-conservative philosophy demonstrates that it is, in essence, a highly instrumental capitalist ideology (Worsthorne 1971).[4]

Thus, for neo-conservatives capitalism is how the economic system should be organized, and institutions that sustain capitalist activity are vital to its defence. However, under capitalist social democracy the role of two key capitalist institutions had been weakened. The first was markets. Neo-conservatives sought the removal of obstacles to markets because of their capacity to use dispersed and fragmented information to enhance the efficiency of capital and thus bolster accumulation. In this emphasis on institutions, information and markets, neo-conservatives place their economic philosophy in a vein that is similar to that of Fredrich Hayek (2001). However, the Austrian economist, as a liberal apologist of capitalism, saw markets and free competition as an end in itself (Hayek 1996). By way of contrast, for neo-conservatives markets and competition are a means to an end. That end is the maintenance of the dominance of the hierarchical capital/labour relation, and hence the social authority of capital, an authority that had been undermined within civil society, intellectuals, and culture by capitalist social

democracy (Worsthorne 1971; Bork 1996). Hence, the reinvigoration of markets under neo-conservatism is essentially a class project that requires the exercise of political power to enforce social order.

Neo-conservatives also sought to reinvigorate the state. According to neo-conservative political philosophy, the state must be strong (Kristol 2003) in order to fulfil four key functions. First, it must continue to undermine residual commitment within communities to the collectivism of capitalist social democracy. Second, it must be capable of governing the market, ensuring that the coercive discipline of competition that is so central to capitalism's dynamic of accumulation is sustained. Third, it must be capable of facilitating the generalization of the productivity gains arising from coercive competition across the economy as a whole. Thus, for neo-conservatives the priority is the capitalist system as a whole, and not, as is the case for neo-liberals, individual capitals.[5] Fourth, the state must be capable of upholding the social dominance of the capital/labour relation. However, for neo-conservatives these functions are not equally important. The maintenance of the dominance of the capital/labour relation, and hence the social authority of capital, outweighs the other responsibilities of the state.

These functions have certain implications for neo-conservative ideology. The first implication is that capitalism, in its need for the state, depends on social institutions that are not the creation of markets. Hence, the market is an outcome of social relations, and not the producer of social relations. The second implication is that the importance of markets is not in their relationship to democracy but because they offer the best means of allocating resources, providing incentives, and stimulating the accumulation upon which capitalism depends. The third implication, which follows from this emphasis on markets, is that policies are not about social welfare and public need but rather the private efficiency of capital. Neo-conservatives do not like the delivery of social services to be concentrated in the public sector (Kristol 2003), but are certainly not averse to state spending that serves to benefit capital (*Wikipedia* 2004). This last implication is, in some ways, the most important. Despite their emphasis on the need for markets, neo-conservatives take a fairly pragmatic view about the relationship between states and markets. They do not take issue with the need for the state to be interventionist in its efforts to sustain capitalist social relations, albeit in ways that differ significantly from those undertaken under capitalist social democracy.

Neo-conservatives set out to contest and undermine capitalist social democracy by harnessing their ideological views to a set of polemical

and organizational skills in the context of a wide-ranging and diverse intellectual struggle in the 1970s to change the dominant set of ideas held by people and thus reshape the social fabric (Hall and Martin 1983). In essence, neo-conservatives set about mobilizing an array of popular discontent within a floundering system of capitalist social democracy, constructing a new 'common sense' politics. Critically, the remaking of common sense allowed neo-conservatives to win a strategic measure of popular consent as well as sufficiently deep social authority. By the late 1970s they had established a complex, heterogeneous composition of social power and social domination that was predicated upon the dominance of capital but which cut across class lines in its popular support; neo-conservatism achieved, in no small measure, a measure of hegemony over advanced capitalist society.

Neo-conservatism or neo-liberalism?

It is in their reasonably pragmatic view of the relationship between the state and the market that the doctrinal differences between neo-liberals and neo-conservatives are clear. Ronald Reagan's fiscal policies typified this pragmatism: cutting taxes in 1981 but putting in place 'revenue enhancers' in 1982; promising to abolish the Department of Education, but increasing its budget by 50 per cent; and increasing payroll taxes in 1983 to enhance the sustainability of the social security system. It can thus be argued that differences between neo-liberals and neo-conservatives have been apparent since the early 1980s. Indeed, these differences were cogently laid out by Andrew Gamble (1988), who argued that neo-liberals and neo-conservatives[6] together formed what was called in the 1970s the 'New Right'. In several areas these two strands of the New Right shared common interests, and this allowed them to unite behind the political project of Thatcher, Reagan and a host of other political leaders across the advanced capitalist world that were articulating New Right ideas. In particular, both neo-liberalism and neo-conservatism sought the overthrow of capitalist social democracy, believing that the growth of state intervention in the economy had had pernicious effects on the operation of capitalism and its social outcomes since the 1940s. In this, they shared the position that there was a need to cut state spending on services to labour and to cut taxes on capital (Kristol 2003). This position was predicated upon a shared respect for the sanctity of capitalist property relations,[7] and moreover suggested a need to direct popular hostility towards the state, and away from the capitalist class.[8]

Nonetheless, neo-liberals and neo-conservatives diverged dramatically over their conception of the role of the state. Neo-liberals sought a smaller, more efficient state, with powers limited to policing the market and enforcing laws so that individual capitals had greater freedom to shape the operation of the political economy. Neo-conservatives, as has been noted, took quite a different view, believing that free markets require strong states to sustain the overarching dominance of the capital/labour relation and hence the social authority of capital as a whole.[9] Thus, as Kristol (2003: 2) notes, neo-conservatives 'do not feel alarm or anxiety about the growth of the state … People have always preferred strong government'. Indeed, in acting as a buttress to a free economy that promotes accumulation, the state is able to ensure its own legitimacy and the legitimacy of the capitalist social relations that neo-conservatives embody. Gamble (1988) neatly encapsulated neo-conservative ideology when he coined the maxim 'the free economy and the strong state'.

If the key difference between neo-liberals and neo-conservatives centres on their conception of the role of the state, then an examination of the extent of the role of the state since the mid-1970s can offer a partial means to resolve empirically whether neo-liberal or neo-conservative is a more appropriate appellation. Such an examination can be made, to a limited degree, using World Bank (2003b, 2004) data that are presented in Table 9.1. This demonstrates that, whether in terms of government

Table 9.1 The role of the state, 1975–2000

	1975	*1980*	*1985*	*1990*	*1995*	*2000*
Government final consumption expenditure						
High-income countries	17	17	18	17	17	17
Middle-income countries	12	12	13	15	15	15
Low-income countries	10	11	12	12	11	12
World	16	16	17	17	17	17
Government current revenue						
High income countries	20	23	23	24	28	n/a
Middle-income countries	n/a	n/a	22	17	18	18*
Low-income countries	15	16	16	16	15	16*
World	20	22	23	23	26	n/a

Notes: Figures are percentage of gross domestic product; n/a is not available.

* is for 2001.

Source: World Bank 2003b, 2004.

final consumption expenditure or government current revenues, on a global scale the state was, at the very least, as large in the mid-1990s as it was in the mid-1970s. In the mid-1970s some 16 per cent of global GDP was dedicated to government final consumption expenditure, whereas by the mid-1990s this figure stood at 17 per cent. In terms of government current revenue, in the mid-1970s some 20 per cent of global GDP was collected by the state, whereas in the mid-1990s the figure was 26 per cent. In no instance was government final consumption expenditure lower in 2000 than it had been in the mid-1970s, and in no instance was government current revenue lower in the mid-1990s than it was in the mid-1970s.

Thus, rather than downsizing the state, which capitalist intellectuals and politicians such as Reagan and Thatcher claimed as their objective throughout the 1980s, the state retains a pivotal, if different, role in the operation of the political economy, which will be explored later. Thus, there is a degree of continuity in the role of the state over the past quarter century. If there is continuity, it is not sensible to think that a period of neo-liberalism in the 1970s and 1980s is now giving way to a period of neo-conservatism, as has been suggested in some sections of the media.

In this light, recent developments in economic policy become more consistent with the broad thrust of policy over the past quarter century. The advanced capitalist economies are expected to run an overall budget deficit of more than 4 per cent of gross domestic product (GDP) between 2002 and 2006 (International Monetary Fund (IMF) 2005). In the US the budget deficit is more than 4 per cent of GDP, in Japan the budget deficit is around 7 per cent of GDP, while in the UK and the euro area the budget deficit currently averages around 3 per cent of GDP. However, the advanced capitalist countries ran budget deficits throughout the 1980s and early and mid-1990s, even under politicians such as Thatcher and Reagan. It was the temporary emergence of budget surpluses in the late 1990s that represented a discontinuity in the budgetary policies of the advanced capitalist economies during the last quarter century. Kristol (2003: 2) notes that the neo-conservative 'attitude toward public finance … is far less risk averse', particularly as it may be necessary to 'shoulder budgetary deficits as the cost … of pursuing economic growth'. Indeed, a leading neo-conservative sympathizer, US Vice-President Dick Cheney, has said unambiguously that 'deficits don't matter' (*The Economist*, 12 June 2004). Clearly, neo-conservatives are willing to countenance budgetary deficits and significant public spending, in particular in areas such as security or populist initiatives designed to

sustain a strategic measure of popular consent. For this reason, neo-liberal elements in the media now dub neo-conservatism as 'big-government conservatism' (*The Economist*, 28 August 2004).

Nonetheless, there can be little doubt that the activities of the state have changed significantly since the heyday of capitalist social democracy. For example, whereas a significant aspect of intervention was then the creation of state-owned enterprises, under neo-conservatism intervention comprises the web of regulatory control overn markets enforced by state-sanctioned quasi-autonomous intermediary nongovernmental organizations and the establishment of quasi-markets in health, education and other public goods. Thus, despite the fact that it is a state responsibility under George W. Bush, the US Federal government is playing 'a greater role in setting education standards than it ever has before' (*The Economist*, 28 August 2004). Similarly, it has been forecast that the private sector will provide as much as one-fifth of all UK public sector services, to a total value of some £60 billion, by 2007 (*Financial Times*, 18 April 2005). The establishment of quasi-markets in public goods is perhaps most demonstrated by the vividly extensive use of 'defence contractors' in Iraq. If anything, then, this redefinition represents a deepening of state intervention in market activity compared with that in the golden age, in that micromanagement is now the rule rather than the exception. However, two aspects of the changing role of the state over the 1980s and 1990s stand out in particular, and these aspects are especially consistent with neo-conservative acceptance of a deepening role for the state in the market. The first is that since the early 1980s the state has increased its involvement in shaping individual activities and lifestyles (*Wikipedia* 2004). In part, this reflects the religious values of many leading neo-conservatives; in part, it reflects a reaction to the 'vulgarity' (Kristol 2003: 2) of modern life. Indeed, the capitalist state in the early years of the twenty-first century can be thought of as being 'neopaternalist' (*The Economist*, 17 July 2003; see also Jayasuriya, this volume). This is seen in social policy changes, and particularly cuts in the public goods and transfers, that had previously comprised a significant proportion of the social safety net in the advanced capitalist economies, as well as in the clear promotion by the state of conservative values. A classic work ethic lies at the heart of this social policy counter-revolution, which is predicated upon individuals assuming full private responsibility for meeting their social needs. The privatization of social need has reinforced the dominance of the market as the principal means of provisioning for social need even as redistributive transfers from capital to labour have been cut. Both aspects of the privatization of social need

brings benefits to capital: the role of the labour market in sustaining access to social needs has been enhanced, while concomitantly social needs have been integrated into the culture of mass consumerism.

The second area in which the role of the state has changed is security. Despite the end of the Cold War, and well before the events of September 11 2001, there has been increased spending on internal and external security. Between 1981 and 1985 the Reagan administration increased US military spending by a quarter and the US has continued to devote a globally unprecedented amount of its public resources to the military and to the scientific and technological community surrounding the military. This has allowed the US to emerge as 'uniquely powerful' (Kristol 2003: 2). Neo-conservatives argue that with such power comes responsibility, especially given the material size of the US and its ideological identity (Kristol 2003), which requires the US to continue to assist to sustain 'democratic, economically liberal governments in place of "failed states" or oppressive regimes' (*Christian Science Monitor*, 2004). In this sense, then, neo-conservative foreign policy harks back to the period of Woodrow Wilson and Teddy Roosevelt, in their admiration of the need to actively spread ideas regarding 'appropriate' governance, economic policy and a morality-based culture abroad, while at the same time backing up that need through an aggressively interventionist – although not necessarily unilateralist or militaristic – foreign policy (Norton 2004). While protection against the external threat posed by communism and, more recently, Wahhabism (Frum and Perle 2004) is central to state security measures, the state has also increasingly used its coercive power against its 'enemies within', whether they be strikers, alternative globalization activists, or asylum seekers. The US Patriot Act, which has dramatically expanded the extent of surveillance activities in the US and increased the powers of law-enforcement agencies, typifies the trend. Indeed, the state is prepared, as it always had been, to use its coercive power against any that seek to systematically challenge the effort to privatize social need. This is because for neo-conservatives 'the use of the state's coercive power is justified when it is used to defeat or contain those interests, organizations and individuals that threaten … the free economy by flouting the rules or resisting the outcomes of market exchanges' (Gamble 1988: 31).

Neo-conservatism and the globalization question

Unlike neo-liberalism, neo-conservative ideology assumes an acceptance of class hierarchies and inequalities. This applies both within countries

and between countries. To this latter end, neo-conservative policy makers have sought, from the advanced capitalist centre of the world economy, to use international financial institutions (IFIs) and bilateral state-to-state relations to transform the position of the state in the developing and transition economies so they are less capable of challenging global class hierarchies and inequalities. It is in this context that the phenomena of globalization can be understood. Neo-conservatism has, in effect, shaped the introduction of a specific form of neo-liberalism in Latin America, Asia and Africa, and it is in these regions of the world economy that it is, perhaps, appropriate to use the appellation 'neo-liberal'. The IMF and the World Bank in particular have been responsible for the development and implementation of structural adjustment programmes and, more recently, 'poverty reduction strategy papers' in Latin America, Africa and Asia that seek to strengthen the role of the market and weaken the developmental role of the state.

However, the policy regimes promoted by the IFIs do not represent the introduction of an ideologically rigorous neo-liberalism in these regions. Rather, both institutions have used their financial power to promote a variant of neo-liberalism that promotes markets, incentives and the private sector, but is not predicated upon the withdrawal of the state. Rather, the role of the state has been transformed, with a specific emphasis being placed upon the facilitation of an elite that has a base in the security apparatus but which nonetheless has a significant economic stake in the activities of capital originating in the advanced capitalist countries. In so doing, IFIs have facilitated the emergence of regimes in developing and transition economies where, as other chapters in this volume have emphasized, military, political and business elites are often the principal local beneficiaries and become part of a deepening control of global production, markets and technology, and an accentuated hierarchy in the world capitalist system. The militarization of international relations that has followed the collapse of the Berlin Wall has but reinforced these processes, with the US in particular using its military power to shape the world in a way that not coincidentally opens up new markets for goods and services produced by predominantly US-based capital.

However, the impact of globalization is not just to be found in developing and transition economies. The challenge of globalization has also been used as an explicit basis on which capital and the state has sought to further reshape advanced capitalist societies by reducing constraining regulations on capital, cutting taxes on capital, while all the while re-regulating labour so as to reduce labour resistance. In this, capital, however, has been only partially successful. There has been, no doubt,

a continued capacity of capital to extract surplus value at the point of production in the advanced capitalist core of the world economy. However, there has only been a partial recovery in the rate of profit, and it is not clear whether this partial recovery is sustainable (Brenner 2004; Wolff 2003; *The Economist*, 8 December 2001; Dumenil and Lévy 2000; Shaikh and Tonak 2000).

The neo-conservative response to emerging contradictions between its economic policies and its political ideology has been to blame states in the advanced capitalist world for continuing to hold on to residual remnants of capitalist social democracy (see Hout, this volume), particularly in European attitudes towards the regulation of labour markets and continued social provisioning, while blaming states in the developing world for a lack of ownership over and implementation of adjustment programmes and poverty reduction strategies, which, they argue, are a consequence of poor governance by the client elite that they have fostered. The way forward, for neo-conservatives, is further liberalization and reform of the rules of the national and international economy through the World Trade Organization. However, in that this would result in the depoliticization of economic decision making through a further reduction of the limited capacity of representative democracies to regulate the operation of the capitalist economy, the effective governance reforms that neo-conservatives currently advocate are consistent with the class interests of global capital.

The governance agenda has two public faces. In the advanced capitalist economies, following the crisis in corporate governance typified by Enron, significant fractions of transnational capital are now seeking to reform the public face of its operations by changing structures of private sector governance. Such changes are nonetheless predicated upon sustaining the social authority of capital. In the developing economies governance is supposed to be about seeking greater support for adjustment policies and poverty reduction strategies. However, in practice governance reforms seek to remove politics from policy making in those areas that most directly affect capital, leaving decisions to unelected technocrats. Governance reforms also promote a selective de-concentration of state functions to the local level. However, decentralization reforms do not challenge local patterns of class relations and do not devolve financial control, resulting in a transfer of responsibility but not power. Indeed, if anything the governance agenda accedes to local patterns of power and privilege, reinforces hierarchies between the central and the local state, and redistributes authority in the central state from the elected to the unelected. The governance agenda thus demonstrates a

neo-conservative conception of democracy which is predicated upon restricting the voice of citizens in a fashion that further limits the capacity of people to challenge the dominance of capital. This conceptualization is dramatically illustrated in the US, where there has been an unprecedented expansion of the powers of the executive branch, at the expense of the legislative and judicial branch, during the term of George W. Bush.

Clearly, neo-conservatism cannot be shown to have succeeded in terms of its economic goals. It has generated only a partial recovery in the trend rate of profit across the global capitalist economy, and it is not as yet clear whether this partial recovery is sustainable. It has not been able to obviate the cycles of capitalism by increasing the capacity of capital to extract absolute and relative surplus value at the point of production. However, as a class project of capital, designed to restore and sustain the dominance of the hierarchical capital/labour relation and hence the social authority of capital, neo-conservatism has unambiguously succeeded. It has increased the power of transnational capital, the neo-conservative state, international finance capital, and client elites in developing and transition economies, while concurrently managing to direct popular hostility towards the state and not the capitalist class. Neo-conservative power is thus ultimately rooted in capital's control of the means of production, but expressed and sustained in its capacity to shape an individualistic common sense that is dominated by commodity fetishism.

Conclusion

This chapter has argued that neo-conservatism has clear limits as an economic ideology. It has sought to use the state to undertake a set of structural economic reforms that strengthen the dominance of the hierarchical capital/labour relation and hence the social authority of capital, at the expense of labour and other popular and democratic forces, around the world. As a consequence of these reforms, neo-conservatives believed that the falling rate of profit that has characterized global capitalism since the late 1960s would be reversed. However, the economic reforms have led to only a partial recovery in the rate of profit. Therefore, neo-conservatism has attempted to restructure the operation of the state itself. Using the language of governance, neo-conservatives have sought to remove economic decision making from the purview of representative institutions such as parliaments.

Neo-conservatism structures the ideological 'common sense' of the class interests that dominate the global economy and the politicians

that, as 'organic intellectuals', represent their interests. This is witnessed, most dramatically, in the alliance that was forged between US President George W. Bush and UK Prime Minister Tony Blair. In principle, these two men should be ideological adversaries, with one promoting 'compassionate conservatism' and the other promoting a 'third way' between free market capitalism and state socialism. In reality, however, these two men have much in common, sharing certain fundamental perspectives about the economy and the state in the modern world that, in the words of a leading British neo-conservative, could be dubbed a form of 'bourgeois triumphalism' (Worsthorne 1998). The first perspective that they share is that participation in global capitalism, which is the *sine qua non* of accumulation, and which is, in reality, dominated by the interests of US capital, requires the capacity to compete globally, in both the public and the private sectors. This means, in turn, that market efficiency is the motor force of accumulation, in both the public and the private sectors. Thus, 'markets and the individual are always prioritized above … collective provision … because the latter are deemed to be too inefficient … to facilitate competition' (Lawson, Thompson and Goss 2004: 4). In turn, market efficiency is driven by contestability on the supply side and choice on the demand side. Both men thus share a deep distrust of the state when it comes to the provisioning of the public goods necessary for social reproduction, believing that collective provision is by definition both inefficient and unresponsive to personal needs, and that the only possible, partial, solution to these inefficiencies within the public sector is a deepening of market-based resource allocation and increased private sector involvement in the delivery of public goods. In their conceptualization of social reproduction they thus privilege market-based solutions predicated upon individualized consumer choice over state-led solutions in the delivery of social services such as health and education (Lawson, Thompson and Goss 2004).

Given these global realities, then, the role of the state is to facilitate the capacity of the private sector to provide public goods and to increase the capacity of labour to individualize, wherever possible, the provision of their social reproduction needs. They thus do not believe in a neo-liberal minimalist state; rather, they believe in a more fundamentally neo-conservative state that carries out two 'enabling' functions. The first is enabling private sector accumulation, through supportive taxation and expenditure policies and the expansion of commodification into collective provision designed to meet the needs of social reproduction. The second is enabling individuals to meet their individualized – and indeed privatized – social reproduction needs, principally through participation in the labour market. However, this individualized and privatized

approach to social provisioning entails substantially greater state intervention, in the form of target-based centralized regulation and bureaucratic work intensification, than the state-led solutions they question (see Jayasuriya, this volume). Moreover, it has not worked well to date; witness the growing fiscal problems within private pension schemes. Both men presided over a period in which inequality within their respective countries has increased (Paxton and Dixon 2004) and have favoured strong internal and external security policies, with internal policies being reflected in the criminalization of asylum seekers, increased recourse to 'zero-tolerance' policing and the use of anti-social behaviour orders and anti-terrorist legislation to more closely monitor and control households and communities, and an emphasis on the role of prisons to punish. External policy has been predicated upon a willingness to use military intervention pre-emptively in an effort to sustain ideological views that privilege a particular morality.

Do these shared perspectives suggest that, despite seemingly explicit ideological differences, both George W. Bush and Tony Blair are neo-conservatives? With regard to George W. Bush, there can be little doubt. He believes in using ' "focused and energetic government"… to promote virtue' (*The Economist*, 12 June 2004). With regard to Tony Blair, neo-conservatives themselves certainly consider him to be one of them. As William Kristol, editor of the neo-conservative *Weekly Standard*, owned by Rupert Murdoch's NewsCorp, which in turn owns Fox News and *The Times* of London, argued, 'Tony Blair is a kind of neo-conservative, despite himself' (*Panorama* 2004).

What's in a name? Quite a lot, actually. As this chapter has tried to indicate, the political and economic agenda of neo-liberals and neo-conservatives share certain ideas, but differ quite fundamentally over others. Thus, the proposition espoused by some in this volume that it is conflict within neo-liberalism, between neo-liberal fundamentalists and neo-conservatives and, at times, between the rich and the market, that shapes the development of the global political economy, is naive. Neo-conservatism promotes markets as class project that facilitates the exercise of political power and enforces social order. Misreading the dominant ideas of the age has important implications for those seeking to bring about the possibility of an alternative, more democratic and humane, future. It is therefore necessary to be clear that the global capitalist class, their organic intellectuals, and capitalist institutions are promulgating a neo-conservative agenda that, while unable to overcome deep-seated and structural problems in the operation of global capitalism, have nonetheless fostered the emergence of a pattern of accumulation that represents a return to the inequalizing growth of the

pre-'golden age'. The global material control of assets allows the capitalist class to promote this agenda, while the benefits of this agenda flow back primarily to them. For those that are subordinate within this pattern of power and privilege, mechanisms of social reproduction have become increasingly commodified and privatized. However, this has pushed the process of social reproduction increasingly onto and into households, many of whom around the world lack the material means to cope. The result is the rapid emergence of a global crisis of social reproduction that requires an imaginative ideological, political and economic response. Global civil society has indeed responded; popular movements of resistance to the class project of the neo-conservatives have arisen, designed to weaken the relationship between the state and capital (Klein 2001). These movements have been rooted in an expansion of popular initiatives to deepen participatory democratic practices that have the potential to challenge and perhaps even transform social relations (Wainwright 2003). It is from within these movements that alternatives are emerging.

Notes

1 This chapter is a substantially revised version of 'Neo-conservative ideology, the state and democracy', in A. H. Akram-Lodhi, R. Chernomas and A. Sepehri (2005) (eds) *Globalization, Neoconservative Policies and Democratic Alternatives: Essays in Honour of John Loxley*, Winnipeg: Arbeiter Ring Publishing.
2 I am grateful to Richard Robison for making this point, quite forcefully, to me.
3 For Strauss himself, these themes were a means to an end, namely, the overthrow of modernity (Postel 2003).
4 I have been unable to locate the exact reference, but in 1983, on the centenary of Marx's death, Peregrine Worsthorne, a leading British neo-conservative, when asked whether he was Marxist, replied that he was, but that he wanted the ruling class to win. It was a comment that succinctly captured the reality of neo-conservative ideology, politics and economics.
5 In this volume, Andrew Gamble's description of 'social market neo-liberalism' comes closest to the understanding of neo-conservatism offered in this chapter.
6 It should be stressed that Gamble himself did not use the phrase 'neo-conservative'.
7 This explains the importance attached by American neo-conservatives to judicial appointments.
8 This is highlighted by the way in which the state was presented as the problem that needed to be lifted from people, rather than even as a partial solution.
9 Of course, many of those that offered tacit support to neo-conservatism did not appreciate the political implications and requirements of the neo-conservative agenda.

10
Mr Bush and Neo-liberalism

William K. Tabb

While the United States has been a central actor in creating the trade, debt and investment regimes of neo-liberalism, less attention has been given to the relation of neo-liberalism to America's muscular foreign policy under George W. Bush and its neo-conservative premises. In this essay I first clarify what is meant by neo-liberalism and argue that Bush Doctrine policies can be interpreted as strategy for expanding the applicability of neo-liberalism through parts of the global South which had previously rejected Washington Consensus doctrine. A second section examines the particular version of neo-liberalism undertaken by the Bush administration, and not only in relation to Iraq. It argues that the manner in which privatization, contracting out, and deregulation are implemented is significantly at variance from the transparency and adherence to free market principles that neo-liberalism in theory celebrates. A third examines the Bush electoral coalition and leading factions within the administration, suggesting that this historic bloc represents a departure from the make-up of the establishment coalition which traditionally governs the American polity. A fourth section examines the oppositional forces arrayed in critique of the Bush agenda ranging from political moderates, traditional conservatives, libertarians, mainstream multilateralists and corporate interests representing large-scale capital. The conclusion is drawn that the Bush administration's strategic emphases are within the historic American foreign policy consensus and that the rationalist political economy emphasis with which many analysts have approached neo-liberalism needs be broadened to take this reality into account, even if his unilateralist policies are repudiated for a more traditional multilateralist approach to exercising hegemony. Finally some questions are raised as to where Bush policies fit in terms of pre-September 11 discourses of human rights and democratization-oriented military interventions and peacekeeping missions.

The goal of neo-liberalism is to expand the domain of private exchange, establishing institutions and norms that are maximally market driven. Neo-liberalism presumes that a lack of individual liberty is the great evil, coercion by the state the greatest danger, and freeing markets from constraints and distortions productive of more rapid economic growth. First-generation critiques of neo-liberalism imposed on developing countries stressed the confluence of economic and financial crises and slower growth following adoption of its policies. This discourse established the iatronic nature of the prescriptions of the global state economic governance institutions, especially the International Monetary Fund, the World Bank and the World Trade Organization (Tabb 2004). A second critical discussion foregrounded the manner in which local elites influence the implementation of the neo-liberal agenda to enhance their own power, economic and political (Schamis 2002). First-generation critique was of policy failure, the second of opportunism.

In this chapter I suggest a third discourse of critique focused not on developing nations or international regime enforcement, but the United States. It addresses three related research questions. The first is whether the Bush invasion and regime change project in Iraq is 'neo-liberal'. The answer depends, as a former US president might have said, on what the meaning of neo-liberalism is. I have already suggested definition of the term in accord with general academic usage. But, as I have argued elsewhere (Tabb 2003) the unannounced agenda of neo-liberalism has been to increase the leverage of transnational corporations and international financiers over dependent economies. Therefore whether we see a new mutation of neo-liberalism in the Bush policies or the end of the neo-liberal epoch is a matter of what we see as the central aspect of the neo-liberal project. The case can be made that 'a good imperialism' can be theorized as the logical next step for neo-liberalism.

IMF conditionalities, World Bank-imposed structural adjustment, or World Trade Organization level playing field regulations to protect property rights, trade openness and investor access are not strong enough weapons for reorienting certain types of social formations. Where local coalitions cannot be assembled around neo-liberal goals through the usual incentives and blandishments it is tempting for the world's hyperpower to employ more direct threats and indeed use of violence to effectuate regime change and then rebuilding economies and governments in the neo-liberal mould. The argument is that the Bush policies can be understood both as in pursuit of neo-liberal policies by other means and consistent with US hegemonic strategy and tactics of long duration even

though important supporters of global neo-liberalism finds such an approach highly problematic.

Secondly, US pursuit of global neo-liberalism in the case of the Bush administration can be interpreted in terms of the distributional coalition favouring and favoured by its policies in much the same way hegemonic coalitions in less economically developed countries have embraced neo-liberalism, implementing its programmes in ways enhancing their own economic and political interests. The case study literature supports the view that neo-liberalism is generally implemented on the basis of political favouritism and crony lines (Schamis 2002). Such a second-stage critique of neo-liberalism has generally been applied to developing economies. I argue things are little different in the way the United States imposes neo-liberal policies in Iraq.

Thirdly, while in the case of less developed countries neo-liberalism could successfully be imposed over the objection of citizens not only due to their economies' dependence and vulnerability but also to the self-interested actions of important fractions of the local elites, so too in the core nations the particular forms neo-liberalism takes is guided by the ideologically dominant interpretation of globalization's imperatives, the fractions of capital which are central to the state's political administration, and the tolerance of their supporting coalition for policies which may not be in the general interest.

The Bush II effort to gain control over the indispensable resources of oil-producing states is calculated to command leverage over importing nations, most crucially of the EU and the rising powers of the global south above all China. If the function of neo-liberalism is to increase freedom for transnational capital from statist restrictions, the project of Bush unilateralism is to enhance the power of the American imperium and to favour the class fractions most supportive of the petro-military contractor-led alliance within the Republican Party. It may also be seen as a drive to control through the use of a rhetoric of democratic promotion and promise of economic reconstruction.

Neo-liberalism and the War on Terrorism

In the realm of US foreign policy following the destruction of the World Trade Center there was an ideological-discursive shift from the use of the 'soft power' of persuasion and stress on the inevitability, automaticity of a leaderless, market-driven processes, to the imperial language of bellicose unilateralism and US dominance. Economic globalization led by US transnationals came to be accompanied by military globalization

directed by the Pentagon under its civilian politically appointed commanders. This shift has been urged and celebrated by liberal imperialists and neo-conservatives embracing informal empire as, for example, in the advocacy by Max Boot in his book, *The Savage Wars of Peace* (the title from Kipling), in which Boot writes of the many foreign lands crying out for enlightened foreign administration. It is the job of American imperialism to impose the rule of law, property rights, even free speech at gunpoint if need be. For the world's only superpower military conquest allows the victor to rewrite property rules, abridge existing contracts and impose new norms of economics and to do so, it is said, in the interests of freeing people now under oppressive regimes. Such policies have also coincided with rejection and abrogation of many proposed and existing international agreements by the United States.

In a number of fora the United States tied security to free trade, political freedom to economic freedom, and human rights to property rights, turned all agendas into vehicles promoting Washington's War on Terrorism and then used the demands of that war as laid out by Washington as justification for its neo-liberal agenda. A world in which small countries have been told 'You are with us or with the terrorists', implied an escalation of the stakes in rejecting US initiatives in global economic and financial negotiations. The anti-terrorism agenda which itself had morphed into war, regime change, and the occupation of Iraq appeared to have trumped economic policy goals for the long historical moment through which the world is passing – one in which we saw a return to Cold War-like priorities and thinking in Washington.

The Bush 'shock and awe' tactics in Iraq were intended among their goals to suggest an urgency of reform to the traditionalists of the region. Much of the world saw the actions as imperialist. Anti-globalization activists were quick to suggest the connection between neo-liberalism and war. Describing Paul Bremer's plans for the US corporate takeover of Iraqi markets, actions which destroyed local competitors and set up rules intended to ensure that no future Iraqi government would be capable of reversing a new property rights regime and a broader imposition of neo-liberalism, Naomi Klein (2003: 10) writes 'Bremer is Iraq's one-man IMF'. But things have not gone as imagined. Part of the explanation of the US failure in Iraq is the result of the neo-liberal model the Bush administration imposed on that country, which ignored provision of basic public services and, more generally, an almost wilful lack of planning beyond that undertaken to protect the oil. Some part of the failure resulted from the corruption and incompetence of the way a crony neo-liberalism was implemented.

A significant part of the failure of the United States in Iraq came from the desire to privatize and as quickly as possible to destroy economic activities dominated by state-designed and state-operated entities. Thus state-owned companies were abandoned to limp along and dwindle. The US occupation, it is reported: 'with its ambitious goals of converting Iraq into a free-market model for the Middle East, the wheels of Iraq's daily economy are barely turning … Little reconstruction is evident. Bombed or looted buildings remain vacant shells. Factories remain still, idled by lack of electricity, the absence of a market and a shortage of raw materials, equipment parts and motivation. U.S. plans to privatize Iraq's antiquated government-run industry fell flat' (Struck 2004: A14). In the summer of 2004, when Iraq was meeting only 60 to perhaps 80 per cent of its demand for potable water, it was announced by the Ministry of Municipalities and Public Works that infrastructure reconstruction projects would have to be seriously scaled back because of rising costs associated, according to an official at the Ministry, with the security demanded by western companies who were hiring large numbers of private guards, setting up elaborate base camps and travelling only in heavily armed convoys, offering much higher salaries than Iraqi companies, paying skyrocketing insurance premiums and were requiring far more administrative support to comply with US-imposed regulations. The official said Iraqis could do the job far faster and cheaper, noting that the ministry would not be dealing with the corrupt local firms chosen by the American prime contractors appointed by the US-controlled Coalition Provisional Authority (Glanz 2004: A8).

The Brookings Institution's Iraq Index figures for electric supply, oil production, civilian casualties and other indicators demonstrate the failures of the Coalition Provisional Authority. A June 2004 report by Christian Aid reported that the CPA resisted audit of its spending in violation of UN resolutions and suggested that since the CPA had been dissolved no report of the unaccounted for billions was likely to be made, even if further embarrassing revelations can be expected. It is not too early to 'say the obvious. By making Iraq a playground for right-wing economic theorists, an employment agency for friends and family, and a source of lucrative contracts for corporate donors, the administration did terrorist recruiters a big favour' (Krugman 2004: A27). In a sense, the US priorities of free markets over meeting basic needs in the less developed world, its insistence on neo-liberal privatization, deregulation and shrinking government were the economic accompaniment of its diplomacy of hegemony, pre-emption and unilateralism.

The manner in which neo-liberal policies are carried on in Iraq is part of a broader story. The administration of George W. Bush did not initiate the policy of contracting out government services. This process is a long-standing one, going back in its current form to the Thatcher–Reagan revolution in attitude towards government's relation to the market. But with the Bush administration the dependence of the federal government on private contractors to draw up, award and monitor such contracts has expanded exponentially as the federal government eliminated 46,000 civil service jobs and added 730,000 contract positions from 1999 to 2002 and many more since that date. Among the staff cuts has been the elimination of half of the federal employees who were the buyers, auditors and contract managers – a dubious saving to taxpayers. The Bush administration planned to contract out half of the remaining 850,000 civil service jobs. Deregulation domestically has been a source of vast riches in a host of industries, from telecommunications to the financial sector. The stakes are high so that it is rational to invest huge amounts in political campaigns. The military has been dramatically affected. Private contractors are now involved in preparing the president's defence budgets and in 'committing, obligating and expending funds' (McCarthy 2004: E1).

Michael Scherer (2002: 58), who has documented abuses of privatization, quotes a retired thirty-year Pentagon veteran, 'There is a let's-give-away-the-government-as-fast-as-we-can attitude'. He notes that, in hiring private sector contractors to monitor contracts, the government was giving up the ability to know whether the job was being carried out properly. Scherer quotes Comptroller General David Walker who was 'not confident that agencies have the ability to effectively manage cost, quality, and performance in contracts' and called challenges to contract oversight 'unprecedented' with a 'high risk' for fraud and abuse. The contracting out of procurement and service provision can lead to the atrophy or dismantling of government capacity to properly monitor cost, quality and compliance more broadly. This has led to cost overruns and government paymasters who lack competence to judge product delivery or properly assess justified cost in cost-plus contracts. This pattern of privatization is familiar to students of neo-liberal policy implementation in other sectors of developing and transitional economies. What elsewhere is called 'crony capitalism', where connections between political figures and their associates who gain privileged access as public resources are privatized, is evident in the petro-military area so central to the Bush coalition and governance structures.

While officials of the US Coalition Provisional Authority said that most of the contracts paid from Iraqi money went to Iraqi companies it never released information which would allow this claim to be verified. It is now clear that most of the contracts with 85 per cent of the Iraqi monies spent went to US companies. Most notable was $1.66 billion to a Halliburton subsidiary (KBR) to import oil from Kuwait on a 'no bid' contract which is under investigation for serious overcharging. Among about $8 billion Halliburton stood to make were a number of building contracts, on which Mohammed Aboush, who was director general in the oil ministry during the occupation, says he and other Iraqi officials were not consulted. He says he informed his American 'advisers' at the CPA that Iraqis felt KBR's performance had been inadequate and that he preferred another company should take over its work. Aboush says he was ignored and states that he believed the decision to give such contracts to Halliburton was political (Cha 2004b: 19).

Halliburton argues, I think correctly, that they were getting so much attention because of the Cheney connection and that these accounting questions come up all the time in procurement contracts – especially in the area of military spending. Judging by the incidence of underperformance, malfeasance, waste, fraud and political favouritism, the argument can be made of systemic failure. According to a report by the Center for Public Integrity (2004), the 71 companies that received contracts for work in Afghanistan or Iraq contributed more than half a million dollars to the Bush 2000 campaign. Nearly 60 per cent of the companies had employee or board members who had either served in or had close ties to the executive branch of Republican or Democratic administrations, members of Congress of both parties, or at the highest levels of the military. At a 1999 conference organized by the Project for a New American Century (an organization to be discussed), Bruce Jackson, who was both the Lockheed vice president and financial chair and chief fundraiser for the first presidential campaign of George W. Bush, explained that if his man were elected that he personally would write the Republican platform on defence (Gray 2003). At the time Lynn Cheney, the soon to be vice president's wife, was on Lockheed's board of directors. This is the same Lockheed famous for charging the taxpayers (among other egregious examples) $640 for a toilet seat in earlier contracts. When Mr Cheney, at the time Halliburton's CEO, left to seek the vice presidency he took David Gribben from Halliburton with him to direct congressional relations for the new administration. Halliburton had hired Gribben from his former job as Dick Cheney's chief of staff at

the Pentagon where he was liaison between the defence contractors and the Department of Defense.

The revolving door career paths of Cheney and Gribben, while not illegal, are ethically suspect since the Bush administration has been a profit centre for Halliburton. Halliburton has built prison camps in Guantanamo, the American embassy in Kabul, and supports the troops logistically, and builds virtual cities to house them, all over the Middle East and Central Asia. In 1991 Halliburton had designed the complex support contract procedure under which it was to receive so many contracts, many on a 'no bid' and cost-plus basis for the Pentagon at the request of the then Secretary of Defense in 1991, Dick Cheney. In effect, thanks to Mr Cheney, it had created its own market. In between his bouts of public service Mr Cheney acquired $44 million at Halliburton and holds stock options worth another $18 million. As Jane Mayer (2004: 82) writes 'As a government official and as Halliburton's C.E.O., he has long argued that the commercial marketplace can provide better and cheaper services than a government bureaucracy. He has also been an advocate of limiting government regulation of the private sector. His vision has been fully realized.' Such conflict of interest is familiar to students of privatization in less economically developed countries. Under the Bush administration cronyism was most evident in the defence industry, a central sector of the economy and a major source of wealth for retired (and active) government officials. Sam Gardiner, a retired Air Force colonel, who has taught at the National War College told Mayer (2004: 85) that so many contracts in Iraq were going to companies with personal connections with the Bush administration that the procurement process had in essence become a 'patronage system'. The official audit of the Coalition Provisional Authority reveals it to have skirted its own rules in awarding contracts and inappropriately bestowing sole-source 'no bid' contracts, with billions of dollars coming from Iraq's oil monies, rushed in the last days before the handover. By contrast, it spent only $366 million of the more than $18 billion for Iraqi reconstruction authorized by the US Congress. Halliburton was the largest single recipient of Iraqi oil funds under the occupation according to the US Army Corps of Engineers figures – thanks to receiving a contract to restore the country's oil infrastructure awarded without competitive bidding. The UN Monitoring Board declared that the US Administrator's non-competitive awards to Halliburton were 'a source of concern'. As more systematic research becomes available the scope of the reconstruction fiasco comes into dismaying relief (Phillips 2005). This third-stage neo-liberalism combines the policy failure of first-generation neo-liberalism

and the critique of crass opportunism characteristic of criticism of second stage neo-liberalism discussed at the start of this essay.

Another familiar aspect of the way neo-liberalism operates to lower costs and increase efficiency is illustrated in the manner in which KBR, the Halliburton subsidiary, hired – through five layers of subcontractors and employment agents – thousands of workers from as far away as the Philippines and India, some of whom were paid a tenth or less than US workers and put directly in combat zones (when some were told they would be going to Kuwait) without the protections issued to US contract workers. These employees often cheated of wages, given inadequate food and living conditions and they were unable to get home when they found the extravagant promises made to them to be false (Cha 2004a: 16). The neo-liberal principles of contracting-out and privatization of government functions meant that civilian contractors (numbering 20,000 in private security jobs alone) were the largest 'coalition' force in Iraq after the US, being considerably larger than the British presence. They were largely unregulated and, as it turned out, when the scandals at Abu Ghraib prison became public beyond the reach of any real supervision or accountability. There was a happy synergy between the desire of top civilian authorities to skirt the Geneva Conventions and the willingness of private contractors to meet their expectations.

As a sign of what is to come, the White House created the Office of the Coordinator of Reconstruction and Stabilization with the mandate to prepare post-conflict plans for 25 countries which were not yet in conflict. The idea was to draw up rebuilding operations over a five- to seven-year planning horizon with 'pre-completed' contracts to be signed in anticipation by US firms to save time later and get the money moving to private contractor democracy builders sooner. The design called for selling-off 'state-owned enterprises that created a non-viable economy'. Such spending by contractors in Afghanistan and Iraq has been, according to Hamid Karzai, speaking of the Afghan experience, 'corrupt, wasteful and unaccountable' and has squandered much of the foreign aid his country has received (Klein 2005: 19). That Paul Wolfowitz, who headed the 'reconstruction' of Iraq, is now running the World Bank which is stepping up its post-regime change spending, suggests to some the scope of the Bush administration's new colonialism ambition. Structural adjustment and conditionalities are easily imposed on devastated economies after regime change. Of course, US troops must first stabilize the occupied country.

The extension of the privatization of war making and policing extends the reach of neo-liberalism deeper into the structure of global political economy and, judged by the impact of contractor failings on

the future of Iraq, and on civil liberties at home, dangerously as well. The roots of such policies and of US strategy to remake the world are associated with the alliance within the Bush administration of an alliance between the assertive nationalism of the Vulcans and neo-conservative intellectuals and policy makers.

The neo-cons

Will Hutton (2003) is not totally wrong in his dismissive characterization of this school of thought when he says:

> American Neoconservatism is a very idiosyncratic creed. Its pitiless view of human nature, its refusal to countenance a social contract, its belief in the raw exercise of power – 'full spectrum dominance' – its attachment to Christian fundamentalism, its attitude toward abortion and capital punishment, and its deification of liberty of the individual are a mismatch of ideas that have no parallel anywhere. It is an outlier within the Western conservative tradition, and it has taken very special circumstances for it not to be more seriously challenged intellectually, culturally, and politically within America.

But then he goes on, 'Without the collapse of American liberalism, the openness of American democracy to the influence of corporate money, and the continuing resentments of the distinct civilization below the Mason–Dixon line, this Neoconservatism would never have come to have the influence it has.' Well, yes. But these are very central elements in the present American reality. US-style liberalism has had no answer to globalization's market-led imperatives and the manner in which the most transnationalized fractions of capital have moved their political allegiances from the National Keynesian growth coalition of the postwar period to the neo-liberal agenda which serves their interests in the new conjuncture. The defeat of liberalism has been forged out of the Southern and Plains states' backlash culture and religious fundamentalism, celebration of individualism, hostility to Big Government, opposition to unions, to redistributional programs which 'tax us to help them', and so on.

The backlash against liberalism (in the American usage of the word) has been nurtured by an extensive offensive paid for by very wealthy extreme conservatives working through their family foundations, like the Olin and Smith Richardson Foundations, which created and fund right-wing think-tanks. I will only say a few words about one of these,

the American Enterprise Institute and the role of one of its funders. The American Enterprise Institute, with corporate funding from, among others, Philip Morris and ExxonMobil, does research and advocacy favouring less regulation of American business. Through his family foundation, AEI funder John Merrill Olin has been a major supporter of the law and economics programme at the University of Chicago. The important legal theorist (rejected in a bitter Congressional debate for a seat on the Supreme Court) Robert Bork holds the Olin Chair of Legal Studies at the AEI. Irving Kristol, a godfather of neo-conservativism, also became an Olin Fellow. AEI's fundraising committee includes the heads or former heads of Citicorp, Chase Manhattan Bank, General Motors and General Electric. They understand that the neo-conservative ideas which come out of this and the other corporate-funded think-tanks will shape the public policies important to their material interests.

The AEI brokered the creation of the Project for the New American Century (to which it rents office space), the leading voice for regime change through war in Iraq. William Kristol, who is editor of the influential *Weekly Standard*, bankrolled by Rupert Murdoch, is chair of the Project for the New American Century and a tireless advocate of American empire based on unquestioned US military pre-eminence and America's accepting its unique responsibilities to preserve and extend an international order 'friendly to our security, our prosperity, and our principles'. Key participants in the Project (before they reached their current positions of power within the Bush administration) included Vice President Dick Cheney, Donald Rumsfeld, Paul Wolfowitz (Rumsfeld's Deputy Assistant Secretary of Defense and now head of the World Bank), and John Bolton (currently Undersecretary for Arms Control and International Security and Mr Bush's choice to represent the United States at the UN). Only days after September 11 2001 the Project released a letter arguing that 'even if evidence does not link Iraq directly to the attack, any strategy aiming at eradication of terrorism and its sponsors must include a determined effort to remove Saddam Hussein form power in Iraq'.

It is no doubt the case that the bulk of Bush advisers, including Cheney and Rumsfeld, are not neo-conservatives (nor for that matter is Bush). Rather they are assertive nationalists who place their faith not in diplomacy or treaties but in power and 'resolve' (Daalder and Lindsay 2003). There was, however, a marriage of convenience with the neo-conservatives on the direction and operation of foreign policy as these dominant advisers wholeheartedly embraced the neo-cons regime change vision and accepted their optimism as to the ease of transition

after military victory. Vice President Cheney and the administration's neo-cons made the case that inextricably linked Saddam Hussein and 9/11 in the minds of most Americans, a connection forged to justify the invasion of Iraq. The particular crusading spirit with which George W. Bush embarked on the Iraqi adventure has much to do with two constituencies important to his administration – the fundamentalist religious right and the petro-military interests. The Bush policies, which can be seen as the spreading of neo-liberalism by other means, take the direction they do in part because of the beliefs and interest of these elements of his support coalition.

God's purposes and oil-military contractor interests hand

The Pew Trust's Religion Program finds that 85 per cent of Americans interviewed declaring religion to be either 'very' or 'fairly' important in their lives and nearly 60 per cent claiming to attend religious services at least once or twice a month. Another poll states that about the same proportion believe in the literal truth of the biblical story of the world being created in six days. Within a diverse religious scene 30 per cent of Americans describe themselves as evangelical Christians. They generally agree on the absolute authority and literal truth of the Bible. These are Mr Bush's core constituency. Polls taken before the 2004 election showed over three-quarters of them intending to vote to re-elect the president. Indeed, the best predictor of whether a white voter supports the president is not income but, rather, how often he or she goes to church.

Bush himself was 'born again' and has a deep belief in the importance of doing Christ's work in the great battle of good against evil. Fundamentalist Christians have become dominant among Republican leaders in Congress. Various pre-millennialists and pre-tribulationists who worship the warrior Jesus and tie his second coming to the Jews returning to Jerusalem have been very influential in US foreign policies which contribute substantially to the anger directed at the United States and support of bin Ladenism. It is possible for those with little or no access to these communities of faith to underestimate the power of the image of the warrior Jesus depicted most graphically in the books of Tim LeHaye and Jerry B. Jenkins, apocalyptic novels based on LeHaye's interpretation of Biblical prophesies of the second coming of Christ, a Jesus who appears from the clouds on a white horse eviscerating the flesh of millions of unbelievers merely by speaking. This series has sold over 60 million copies and is part of a large literature that connects easily with the long-standing tradition of America as the world's last, best hope for freedom and a religious faith which sees America's enemies

as irredeemably evil. For them, 9/11 was a Godsend (pardon the usage). Terrorists become a replacement for the Evil Empire as a fount of concentrated evil and in the minds of believers disarm the criticism that the United States is acting imperialistically since it was attacked by the evil ones and the response of a righteous America is to do God's work.

Oil – connecting the dots

There are a number of stories to tell about the influence of the energy industry on US foreign policy and, of course, obvious connections between the Bush administration, whose leading figures come from just such a background. But oil has been at the centre of US Middle Eastern policy for a long time. At the structural level the United States, with 5 per cent of the world's population consuming 25 per cent of the oil being pumped today, means that any US president would be involved in efforts to control as much of global reserves as possible. US anxiety over developments in Saudi Arabia and Venezuela are among the main factors which 'have given impetus to desire to dismantle the nationalized Iraqi oil industry and to privatize it' (*Petroleum Intelligence Weekly* 2003). Another important influence on the willingness to invade a sovereign country to take control of its resource wealth is the deeper effect of a Texas-oil background and worldview. As described by Micklethwaite and Wooldridge (2004: 31): 'Most of the Texan ruling class had the mentality of plantation owners: resources, including oil, were there to be extracted, immigrant labour was there to be used, power was there to be maintained, money was nothing to be ashamed of and liberalism was to be crushed.'

For nations such as Russia and France whose access to Iraqi oil before the American war with Saddam Hussein, and perhaps also for the British who had lost control of Iraqi oil they had held under a puppet regime, what was widely seen in the business as the oil grab by Washington was not only – and perhaps not even primarily – a war on terrorism or with the intention of spreading democracy. US and UK companies had held three-quarters of Iraq's oil production until the 1972 nationalization of the Iraq Petroleum Company. Saddam's foreign contracts, which excluded Anglo-American participation, could have reached over a trillion dollars, according to the International Energy Agency's *World Energy Outlook 2001*. In 1997 Lukoil, Russia's largest oil company, had signed a $20 billion contract to drill the West Qurna oilfield. Similarly, Zarubezhneft had a concession potentially worth $90 billion to develop the bin Umar oilfield. France's TotalFinaElf had been struggling with the American giants in the Middle East for some time and the loss of

investments in Iraq was also a serious blow. American occupation of Iraq at this level is an oil grab of immense proportion.

That Saddam preferred payment in euros and not dollars was also significant. Since the 1970s hundreds of billions of petrodollars had been sent to the unregulated offshore branches of American banks, above all to Citibank, the well-connected US financial giant, and had been a major profit centre for US-based international financiers just as purchases of American weapons systems had been a major source of income to the American military contractors and the construction contracts tied to the industry had been an important source of income to companies such as Halliburton. Cynical observers consider this a conspiracy, others a coincidence, and still others the normal working of American political capitalism. Freeing Iraq and taking control of a country with the world's second largest oil reserves was a matter of good business. As one State Department official quipped in explaining why Bush went to war, 'If the Gulf produced Kumquats, would we be doing this? I have my doubts' (Judis 2003: 12). While the neo-cons appeared to some to be interested only in democratizing countries believed to threaten Israel, the administration's larger regime vision extended to the 'arc of instability', identified as the home of rogue states, 'bad guys' and 'evil doers' said to run from the Andean region of South America through North Africa, across the Middle East to Indonesia. As some observers have pointed out, this pretty much covers the world's key oil resources.

Just behind the oil industry at the heart of the economic coalition supporting current policy are the military contractors who promise a new generation of weapons. These involve the crony connections between retired generals selling to their former subordinates who can look forward to a similar second career. The privatization of war materials and provisioning has become a particularly crucial realm in which neo-liberalism is advancing rapidly in the United States. If current policies continue, military costs will stay high, crowding-out expenditures for social needs at home. Instead of considerations of development aid and debt cancellation, there will be more focus on militarization of societies around the world. The strategy of empire is increasing the policing presence across much of the globe. Such a prospect is alarming to many, including a number of Republicans who have long been critical of the Bush dynasty's family corruption and its economics of privilege, as well as its pandering to the religious right and now George W. Bush's budgetary irresponsibility, deceit and mismanagement of the war, and suppression of civil liberties. Many conservatives (along with others) opposed his Big Brother–Big Government administration.

Conservative critique of the neo-cons

Historically, conservatives have been more cautious about getting into expensive and open-ended foreign involvements. In 2002 Mr Bush's father's national security adviser Brent Scowcroft wrote an op ed. in the *Wall Street Journal* during the debate over whether or not the US should invade Iraq, arguing that it should not. While this raised a number of eyebrows and was thought to be disloyal to the president, Scowcroft was expressing a mainstream conservative view. He readily acknowledged that Saddam Husein was a very bad man and an enemy of the United States, but stated that attacking Iraq would create, he thought, 'an explosion of rage against us' and would likely require 'a large-scale, long-term military occupation'. When the administration of George W. Bush declined to even estimate the cost of the war and the rebuilding while continuing to demand new tax cuts and to increase its chances of re-election favoured expensive domestic programmes such as expanding drug coverage to seniors, it was also going against conservative values of fiscal prudence and limited government.

If we go back to the canonical conservative text, Russell Kirk's 1953 *The Conservative Mind*, there is a central stress on limited government and unlimited markets and an ordered liberty which rejects the notion that government should be the primary solver of economic and social problems, that government had to be rolled back. This was the essence of the announced goals of the Reagan Revolution which Bush the Younger sees as his model. Yet, say the conservatives, he has expanded government and gotten Washington involved in imposing the political regime of its choice on Iraqis in a misguided experiment in social engineering. Ruling the world is not a conservative position, as William Ruger (2001) writes in *Reason Magazine*:

> It is a policy that will threaten rather than preserve many of America's traditional values, such as individual liberty, small government and anti-militarism … [W]ar and preparing for war are the soils that nurture the growth of state power, burdensome taxation, conscription, and militarism. If American conservatism should stand for anything … it should be the goal of limited government. Yet the primacist policies offered here guarantee the opposite: a leviathan.

As the United States prepared for the formal turnover of authority in Iraq to a US-friendly interim Iraqi government Henry Hyde, one of the more conservative of traditional senior Republicans and chair of the House International Relations committee, has said 'It would be foolish,

not to say ruinously arrogant, to believe that we can determine the future of Iraq.' Pat Roberts, the Kansas Republican chair of the Senate Intelligence Committee, also criticized 'growing U.S. messianic instincts', and 'a sort of global social engineering where the United States feels it is both entitled and obligated to promote democracy, by force if necessary'. Christopher Preble, director of foreign policy studies at the libertarian Cato Institute, suggests that empire 'is problematic because it threatens our liberty and economic security at home, and it is counterproductive abroad'. To such conservatives the question arose: 'Is George W. Bush a conservative?' By conventional reckoning their answer seemed to be 'No, he is not.' As the situation in Iraq continued to deteriorate, the breadth of conservative displeasure grew (Hendrikson 2004).

The impact of business

Many who believe neo-liberal policies should produce freer, more efficient markets are among the strongest critics of the manner in which the Bush administration delivered favours in exchange for emolument not so different from the baksheesh condemned when demanded of foreign corporations by rent-seeking Third World rulers. Most striking perhaps are Mr Cheney's energy plan, largely the work of his energy industry taskforce, and the more recent pharmaceutical industry-sponsored prescription drug benefits in Medicare. Micklethwaite and Wooldridge (2004: 142) observe that Bush's enthusiasm has generally been 'not only for business, but big business, rather than for the free market. His own career was a textbook example of Texas crony capitalism.' The Southern takeover of the Republican Party brought a Texas congressional leadership featuring a belligerent 'take-no-prisoners' style of politics under House Speaker Tom Delay, known as 'the Hammer', whose now decade-old K Street Project has extorted corporate funds and insisted lobbyists hire only Republicans and who appears to have overreached in more than one too many illegal manoeuvres at the time of writing.

While today's Republicans have been extremely successful in welding lobbyists to their party, and corporations continue to compete for government largesse, Bush foreign policy increasingly worries many corporate leaders. The mainstream business community generally supports what has long been the bipartisan US foreign policy. It would be surprising if this were not the case. What is today called neo-liberalism has always been central to its vision of how the world should be organized. But the economics of free trade and the open door to US-based investors

and financiers so that they can sell and do business everywhere without statist restriction has always required a capacity to enforce the rules and to guarantee the order and stability within which transnational capital can thrive. The connection between foreign markets and American prosperity was well and consistently understood by this country's leaders from its very earliest days. What William Appleman Williams called 'Open Door Imperialism' rationalized by what he termed the 'Imperialism of Idealism' has long been central to American foreign policy and seen as matters of economic necessity and ideological cover. The expectation, certainly since the end of the Second World War, from Truman through the first President Bush and Bill Clinton, very much includes the expectation that the American military would enforce the rules when and where needed. Seemingly major differences between the Clinton administration approach and Bush II foreign policies 'amount to little more than quibbles over operational details' (Bacevich 2002: 33) within a common understanding. The argument for continuity on essentials is, I think, strong. While there are those who see Bush II policies as a rogue departure only possible because of 9/11, we have the counter-argument articulated by James Mann (2004: 30) among others that during the 35 years from 1968 to 2003 the Vulcans, the group advising George W. Bush, 'reflected the moods and beliefs of America as a whole'. While too strong as a blanket statement, an assertive nationalism and the election of right-wing political figures favouring a strong military posture has been the trend in much of the country. However, Americans turn against imperial adventurism when it proves costly in American lives and treasure.

Opposition to Bush foreign policy comes from those Establishment figures who, while they may acknowledge that its intentions are good (spreading order and the American way around the world), believe that the Bush White House has in reality created disorder and insecurity. They fear imperial overreach and the destruction of the very liberty such foreign conquest is alleged to be protecting. On a more mundane, everyday business world level, companies report their customers and foreign contract technical employees are having an increasingly difficult time due to time-consuming security checks and, indeed, are often being denied entry. A large number of student visas are also delayed or turned down. The damage to the American economy is considerable. A coalition of 25 organizations representing 95 per cent of the American research community say urgent reform is required if the country is to remain the favoured destination of the world's brightest students and researchers (Grimes and Alden 2004: 1). Since two-thirds of foreign

students earning PhDs in science and engineering remain in the United States, if the situation does not improve economic growth and long-term competitiveness will suffer as a result. Corporate America puts the price tag at over $30 billion in lost revenues over the first two years of such security restrictions, according to a survey by eight major business organizations, including the Aerospace Industries Association (Alden 2004: 1). Perhaps most damaging in this area of costs to the corporate sector is that the consequences of Bush policies are making the world less safe for the free marketplace. Control Risks, a UK-based security consultancy's *RiskMap 2004*, describes US foreign policy as 'the most important single factor driving the development of global risk'. It reports that many in the private sector 'believe that US unilateralism is creating a security paradox: by using US power unilaterally and aggressively in pursuit of global stability, the Bush administration is in fact creating precisely the opposite effect'. Finally, in terms of globalization and the pursuit of neo-liberalism in trade, investment and finance, Shivan Subrananiam, chair and chief executive of FM Global, an insurance firm says, 'Corporations are operating in a turbulent world where businesses are seeking growth through globalisation, outsourcing, consolidation, just-in-time delivery and cross-border supply, further increasing their exposure to risk' (Fidler and Huband 2003: 11). Jeff Garten (2003: 30), dean of the Yale School of Management, warns that the danger of a slowdown in globalization and rising anti-Americanism will fuel each other impacting on the bottom line of US corporations. He points out that 30 per cent of the profits earned by the companies comprising the Standard & Poor's 500 stock index come from earnings outside the US.

Where the end of the Cold War de-securitized the international political economy and allowed issues of global free trade and investment to become more central, the War on Terrorism has crowded out neo-liberal economic regime development and put military initiatives back at the centre of international relations, undermining and reversing the openness associated with market-driven globalization (and the politics of social justice which arose in response to growing inequality). The single-minded militarism had no place for a host of other pressing issues. Along such lines traditional realist Fareed Zakaria (2004: 41) offers a critique of how the Bush agenda since 9/11 is undermining globalization's progress:

> You see, a funny thing has happened around the world over the past two years. While the war on terrorism has dominated headlines, the great engine of globalisation has kept moving, rewarding some,

> punishing others, but always keeping up the pressure by increasing human contact, communications and competition. For almost every country today, its primary struggle centres on globalisation issues – growth, poverty eradication, disease prevention, education, urbanization, the preservation of identity. On all these, America is now largely silent.

While Zakaria, and indeed this author, prefer greater attention to such issues, it is important to remember what things were like before Iraq. US leadership under Bill Clinton was dominated by a neo-liberal agenda favouring transnationals and international financiers, often against the interests of the poor of the Global South (Tabb 2001, 2002).

The narrowness of the Bush approach and its substituting of US dominance in place of traditional American 'leadership' (Brzezinski 2004) tend to obscure important developments evident well before September 11. There was the emergence of the new humanitarianism, with its goals of social transformation and regime change in the economically less developed countries. While any consideration of the politics of human rights and democratization, especially after the pictures of Abu Ghraib, would expand our topic far too much, it is not unreasonable to think of the Bush agenda for the Greater Middle East as a particular version and usage of already established humanitarian conditionality, aid politicization, and the melding of developmentalism and security concerns. The expansion of peace keeping and the general confusion around respect for sovereignty in the context of denial of basic human rights and democracy offer a confusing background for thinking about post-US invasion of Iraq development and intervention politics.

In a longer perspective we may see a continuity of policy, even if there is sharp disagreement as to basic tactics on how to respond to a loss of control over parts of the global south as they are transformed in unexpected ways by globalization. Across the so-called developing world and transitional economies rather than emulating neo-liberalism's support for deregulation and free market economics, a parallel economy has evolved based on forms of protectionism which are integral to global networks. Such forms of political economy can be seen not as residual or temporary departures from a general trend to neo-liberal regimes of openness but rather a competitor regime which has been quite successful in creating alternative local and trans-border flows. Rather than a temporary aberration of formerly accepted and enforced social regulation, such developments may signal a very different sort of regime change (Duffield 2001).

Conclusion

We conclude by returning to the question raised at the start of this chapter: can the Bush Doctrine be considered an extension of the neo-liberal project, geared to achieving its goals by other means, or is it counter-productive to neo-liberalism? We argue that, in all likelihood, it represents a setback for the type of globalization envisioned by most neo-liberals. It must be emphasized that this judgement is based on the realities of the way the regime change process has gone and the fallout in the region and the world at large of the way the War on Terror has reversed the openness and free flow of goods, people and investments which Clinton-era multilateral foreign policy had achieved. Making markets work as neo-liberalism seeks to do requires a far more nuanced approach and, as Mr Bush has famously said, 'I don't do nuance'. It is the narrowness, overweening ambition and incompetence of the Bush administration that has been its undoing, rather than any commitment to American power and imperial ambitions.

But it is not that the Bush Mid East policies depart from the imperative to gain maximum leverage over the resources of the region, only that they are not working. It is not regime change per se that is the issue. In the past western powers have changed local rulers in this part of the world (as well as elsewhere) as convenient. According to the Defense Department's annual 'Base Structure Report' for fiscal year 2003 the Pentagon has 702 overseas bases in 130 countries. Intervention is a constant. Active and forceful regime change always an option. The question of what is secured by such massive presence is an open debate that need not be rehearsed here, except to say that the intra-elite discussion of foreign policy is always within givens as to US interests. Polite academics have too rarely examined the givens of empire. Today they are prompted to do so by policy actors and advocates of an openly liberal imperialism and by neo-conservative empire builders.

At about the same time the CIA was overthrowing the democratically elected government of Prime Minister Mossadeq in Iran for interfering with Anglo-American oil interests, it was also deposing the democratic Arbenz government of Guatemala, and for the same reason. Each had tried to retake control of the resource wealth of their country. In each of these cases, and many others which could as easily be cited, the goals of what we now call neo-liberal economic policy were pursued by military means. Force and the threat of US intervention are hardly aberrations. US ambitions to gain a larger share of the resources found in less powerful countries is longstanding. That millions have died in Cambodia,

Angola and Nicaragua due to sponsored civil wars, American state terrorism, deadly sanctions, blockades and coups is widely understood. The questions to elites are only and always whether the price is acceptable. Bush's words as he enunciates the goals of US foreign policy could come as comfortably from the mouths of Woodrow Wilson, Franklin Roosevelt or John Kennedy (Dueck 2003–4). American policy makers disagree over how best to achieve these liberal and neo-liberal goals overseas but agree on the broad principles and interests at stake.

The contemporary international economic architecture ensures that the normal workings of world market forces (AKA globalization) yield disproportionate benefits to Americans conferring autonomy on US policy makers while curbing the autonomy of others. As has been argued, there are a number of states which for different reasons cannot be induced or coerced to submit to such regime rules and require other tactics. What the cost/benefit calculation is in each case is a matter of debate and it is here that the neo-conservatives and those in the Bush administration who accept their evaluation have proven to be both in a minority of the foreign policy establishment and wrong as a matter of unfolding experience.

Many believe this marks the end of the neo-conservatives ambitious foreign policy. However, Max Boot (2004: 15) argues, with some reason I think, that the United States cannot (or in my telling will not) 'shrug off the burdens of global leadership'. He urges America to exercise power more in the mode of Lord Cromer's indirect rule of Egypt than Curzon's haughty command over India, the Bremer model. Ironically, perhaps such a smarter imperialism is much more likely from more centrist leaders in his own party or from likely Democratic candidates for the presidency in 2008. Looking back to the 2004 election Mr Kerry's foreign policy speeches and the message of those experts he surrounded himself with revealed an imperial ambition which, while multilateralist in legitimizing intent, was quite ambitious. Neo-liberalism will continue to be pursued by US policy makers at home and abroad, but the muscular adventurism of the Bush neo-conservatives having been discredited by events will likely be replaced by greater caution, as was the case of American policy after Vietnam. While the neo-conservatives will not go quietly, desire for multilateral cover may lead the United States back to a greater commitment to global state governance regime building. Secretary of State Rice's and President Bush's post-election fence-mending trips to Europe indicate such a development. The question none the less remains open, given Bush II ambitions, whether shows of military power can ensure an orderly world system in the face of transformations

unleashed by globalization's creation of transnational webs of alternative sources of power, wealth appropriation, and social fragmentation. What alternatives global civil society can promote is another important question for the future of the world system in the twenty-first century. The confidence of both neo-liberals and neo-conservatives has been shaken by real world events.

Part IV
The Neo-liberal Future

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11

Neo-liberalism and Transparency: Political versus Economic Liberalism

Garry Rodan

Introduction

Neo-liberalism is principally a political project of embedding market values and structures within not only economic, but also social and political life. Its objective is a reshaping of power relations. However, within the broad neo-liberal camp there have always been differences over how far this process should extend and by what means it should be achieved. Consequently, neo-liberalism is a dynamic and, at times, problematic amalgamation of interests and ideologies. Indeed, in the contemporary context, the emergence of the Post-Washington Consensus (PWC), with its emphasis on market-supportive institutions, is as much reflective of these internal frictions as it is of the overall unifying aspects of the neo-liberal reform agenda. In essence, though, the question at the heart of the contemporary dispute is: what forms of state power will enable neo-liberalism to flourish into the future?

This chapter starts from an acceptance of Andrew Gamble's argument in this collection that the constant mutation of neo-liberalism is driven by internal differences and political limitations that are inherent to the concept. However, it represents a specific attempt to analyse the nature and significance of enduring internal differences over the relationship between economic and political liberalism for the direction of neo-liberalism. Whether these differences are reconciled or intensified is important in shaping the institutions through which market relations will be promoted.

In particular, this chapter will involve an examination of the meaning, purpose and political regime implications of transparency reform

among neo-liberals. The concept of transparency has been thematic to neo-liberal reform prescriptions in response to the 1997–98 Asian financial crisis, featuring heavily in PWC ideas about the building of institutions to support sustainable market systems in that region and elsewhere. It has even enjoyed currency among those within the neo-liberal camp that have been less than wholehearted enthusiasts of the overall agenda of the PWC.

Transparency invariably has political implications in that it entails curbs on the discretionary powers over the availability of information (Florini 2000). But how does this relate to political liberalism and the distribution of power? Whose interests are being advanced through the different forms of transparency prescribed by neo-liberals? And what does neo-liberal transparency reform mean for authoritarian political regimes? In the discussion to follow, it will be argued that within the neo-liberal camp there are some significant differences in both the extent and forms of transparency being advocated and/or actively supported. In particular, there is a distinction to be drawn between those that limit their transparency advocacy to the provision of information with an immediate instrumental relationship to the market and to the enforcement of pro-market regulations, and those that embrace a more expansive notion of openness relating various liberal civil society and political institutions to the market.

Importantly, though, both conceptions of transparency are rooted in the logic of market functionality. Within this framework, transparency's fundamental purpose is that of rendering greater discipline and accountability of policy makers and actors to the market. Forms of transparency that might increase the market's accountability to policy makers and citizens have been either marginal to, or completely outside, this framework and have made limited progress in developing countries affected by financial crises. Yet this may well be the most significant feature of the neo-liberal transparency drive: its potential to depoliticize an inherently political process that protects and advances certain interests to the exclusion of others. Indeed, despite the popular association of transparency with ideals of democracy, neo-liberal concepts of transparency loom as an alternative to these. Moreover, it is principally technocratic rationalism that these concepts promote and they do not pose a universal threat to authoritarian regimes. On the contrary, more sophisticated such regimes may be able to harness neo-liberal concepts of transparency to their legitimation and reproduction.

The analysis here suggests therefore that one form through which neo-liberalism is advancing involves a techno-managerialism of economic

governance, institutionalizing the authority of the market and insulating it from political scrutiny and contestation. As Kanishka Jayasuriya explains elsewhere in this collection, complementary processes are at work in new forms of state social regulation that seek to undermine the capacity and legitimacy of any form of political competition or civil society alternative to market relationships.

Consensus not without tensions

Attempts to encapsulate the essential elements of the Washington Consensus development policy orthodoxy of the late 1980s and most of the 1990s emphasize the resurrection of long-standing economic liberal notions of free trade, minimal states and the general superiority of markets for allocating resources. To quote Soederberg (2004: 281), the Washington Consensus 'was premised on the steadfast belief that political and social problems should be solved through market-based mechanisms and the rule of law as opposed to state interventionism'. Critical analysts of neo-liberalism had pointed out well before the Asian and other recent financial crises that there was a major disjuncture between this set of beliefs and the objective reality of neo-liberalism. In particular, far from the global expansion of market-based systems entailing the dismantling of state power, it had been accompanied by a combination of more coercive state powers to protect economic reforms from popular challenges, and a new regulatory state that was increasingly concealing and insulating policy choices from the political process altogether (Vogel 1996; Jayasuriya 2000).

However, it was the questioning from elements within the development policy establishment that proved decisive. The socially iniquitous and politically divisive effects of the Washington Consensus agenda had given liberal economists with a less starry-eyed belief in the 'invisible hand' of the free market even more cause for concern and theoretical reconsideration.

What, then, distinguishes the PWC from the previous orthodoxy? The PWC rejects the Washington Consensus assumption that markets are naturally and universally efficient. Instead it assumes that market failure is not an uncommon phenomenon. Consequently, some degree of state intervention is necessary to redress this in order to ensure the most effectively functioning market system. This position alone is not entirely new to liberal economic theory but in the contemporary counter to the Washington Consensus it is supplemented by a related assumption – namely that a host of governmental and non-governmental institutions

are crucial to market efficiency and sustainability. These institutions are considered to be vital in transmitting information pertinent to investment decisions and reducing transaction costs in the marketplace. In this view, institutions are needed to regulate the market for its own good.

In the late 1990s the collapse of financial markets in Asia and elsewhere created the opportunity to advance this argument in policy circles. In the drive for improved regulation, the PWC has involved a broad agenda of governance reforms to achieve greater institutional convergence between developed and developing markets. There are many dimensions to this process, but they include the call for institutions to deliver improved transparency (Camdessus 1998a, 1998b; World Bank 1997b), the details of which will be outlined below. Additionally, though, the PWC case for institution building extends to a broad set of social relations that function to reduce economic transactions costs, including by correcting information asymmetries. They include the so-called social capital that underscores the cohesiveness and harmony of societies; the assorted networks of support and meaning essential to sustainable market systems (Fine, Lapavitsas and Pincus 2001a: xvii). The renewed attention to the problem of poverty by the World Bank was related to this theoretical position of the PWC and also reflected a growing concern among liberal economists about the unpopularity of, and contention over, neo-liberalism in developing countries (Soederberg 2004: 284; 2002: 285–7).

As a number of analysts have pointed out, though, these important distinctions have meant not so much the retreat of neo-liberalism as a new chapter in its development. Cammack (2004) argues that this direction represents a transition from a 'shallow neo-liberalism' emphasizing a minimal state to a 'deep neo-liberalism' attempting to shape social relations and institutions to make markets more competitive (see also Cerny 2004). Crucially for the argument here, though, this new PWC orthodoxy does not mean the end of friction between different elements of the neo-liberal camp. The departure from the World Bank of its vice president and chief PWC articulator, Joseph Stiglitz, in the face of a backlash from within and beyond the Bank is but one of the more conspicuous demonstrations of this (Wade 2001; Stiglitz 2002). The appointment of neo-conservative US deputy defence secretary, Paul Wolfowitz, as World Bank president in 2005 also suggests flux in the political alliances shaping the neo-liberal drive.

More broadly, elements of the US neo-liberal establishment, and economic libertarian and other right-wing groups committed to the pre-eminence of market values, have reservations about key aspects of

the PWC. Some have focussed their campaigns on the international financial institutions (IFIs) themselves. For example, former and current US Treasury secretaries Larry Summers and Paul O'Neil have condemned the World Bank's initiatives on 'empowerment', urging a return to project focus on raising productivity and income levels (Bøås and McNeill 2003). Free marketeers in the Friedrich von Hayek tradition, such as the Cato Institute and the Heritage Foundation, have also portrayed the World Bank and the International Monetary Fund (IMF) as part of the development problem. They have echoed some criticisms of IFIs in the US Congress International Financial Advisory Commission (IFIAC), headed by Allen Meltzer of the Carnegie Mellon University. The Meltzer Report condemned the IMF for rescuing governments through crisis loans instead of allowing markets to exert their disciplining impacts (Peet 2004: 213). These groups have built on the report's calls for internal IFI reform, arguing that the institution-building priority should be concentrated on fostering economic freedom and the associated institutions of rule of law and private property. Indeed, they have been strong supporters of the Bush Administration's US$5 billion Millennium Challenge Account (MCA) development assistance programme initiative that offers a potential means of bypassing the IFIs to more directly promote such an agenda (Schaeffer and Pasicolan 2003; Eiras 2003; Radelet 2004). Importantly, even the most extreme economic libertarians now understand that Locke's 'nightwatchman state' is inadequate for the task of neo-liberal globalization.

Liberalism, democracy and authoritarianism

These internal neo-liberal tensions are rooted in long-standing differences over the understanding of liberalism and its perceived relationship to market development. For liberals, ideals of freedom and liberty are paramount. The attraction to democracy among liberals has thus always been qualified and uneven. The 'limited democracy' preferred by liberals stems from concern that the sorts of freedoms and liberties they value could be threatened by anything more than this. But what precisely are the freedoms and liberties they value?

For liberals influenced by Hayek and Milton Friedman, the concepts of 'freedom' and 'liberty' are equated almost exclusively with the economic freedom and economic liberty of individuals through private property rights. Indeed, personal liberty is often either indistinguishable from economic liberty or, in effect, reduced to it. It is a position championed through an array of think-tanks and organizations, not

least via various indices of economic freedom that rank countries and are widely reported in the international media. The most high-profile of these is the annual Index of Economic Freedom jointly published by The Heritage Foundation and *The Wall Street Journal*, but the Economic Freedom of the World Index by the Cato Institute in conjunction with the Vancouver-based Fraser Institute and a further 50 organizations world-wide is also widely cited. There is no mistaking the political priority accorded to the protection of private property rights in these indices. The *Economic Freedom of the World: 2004 Annual Report*, for example, declares that: 'Protection of persons and their rightfully acquired property is a central element of both economic freedom and civil society. Indeed, it is the most important function of government' (Gwartney and Lawson 2004: 6). The apprehension of the Cato Institute's vice-president James Dorn about the implications of democracy was also candidly reflected on in his observations about the latest report:

> When Hong Kong does achieve democracy, that political watershed could be a curse as well as a blessing. It would be a curse if it allowed voters to use the force of legislation to plunder private property by redistributing it to special interest groups in the name of 'social justice'. The expansion of the welfare-regulatory state would endanger both economic and personal freedom in Hong Kong. (Dorn 2004)

But it is also the primacy of private property rights that can lead economic liberals to rally in support of democracy in certain circumstances, although the precise form of democracy is not always clear. Thus, in a January 2004 press release announcing that Hong Kong was, for the 10th year in succession, ranked at the top of the Index of Economic Freedom, *The Wall Street Journal* stated: 'The Index, however, does not measure political freedom. If it did, Hong Kong's score would have taken a plunge this week on the news that Beijing has decided to slow the pace of democratic reform in Hong Kong and perhaps abandon it altogether.' The press release went on to assert that one of the lessons the Index had demonstrated over the years was that 'economic and political liberty go hand in hand' (*The Wall Street Journal* 2004). However, the two countries that have monopolized the top positions in this Index have been Hong Kong and Singapore. There has been no consistent interest in the absence of democracy in these countries from either the Heritage Foundation or *The Wall Street Journal*. On the contrary, secure property rights have been a recurring explanatory variable in distinguishing these

two countries from the many languishing developing countries lower down the rankings.[1]

The repeatedly high ranking of Singapore in these indices is especially interesting and revealing. First, despite a very open trading system, the domestic economy is subject to considerable direct and indirect economic state involvement. Many of these 'distortions' have helped to boost the profitability of international capital by cutting the costs of the various factors of production (Rodan 1989). Second, if this is nevertheless thought to constitute 'economic liberty' because private property rights are generally secure, what sort of 'political liberty' accompanies it? In Singapore, civil society is systematically suppressed, opposition political parties are subject to a vast array of constraints in their attempts to compete for power, the media are amongst the most controlled in the world, and the courts have played a pivotal role in the political persecution of government critics and opponents (Rodan 1996; Lydgate 2003). Widely depicted as a paternalistic or 'nanny' state for the extensive social and political engineering limiting the scope for individual choice and responsibility (Tremewan 1994), on the surface Singapore would appear to be antithetical to any form of liberalism. Evidently the attraction for neo-liberals lies precisely in the fact that many of the features of the state and regime contribute to the access, profitability and security of international capital.[2]

Given that Hayek's ideas have been the inspiration for so many neo-liberals designing and promoting these economic freedom rankings, what did he have to say about the relationship between political regimes and liberalism? Hayek's observations about life in Chile under the brutal regime of General Pinochet are significant. In a letter to *The Times* (London) on 3 August 1978, he declared: 'I have not been able to find a single person even in much maligned Chile who did not agree that personal freedom was much greater under Pinochet than it had been under Allende' (quoted in Arblaster 1984: 342). He also claimed that 'there have of course been many instances of authoritarian governments under which personal liberty was safer than under many democracies' (quoted in Arblaster 1984: 342). It was also Hayek (1978: 143) who drew a distinction between totalitarianism and authoritarianism to contend that 'it is at least conceivable that an authoritarian government might act on liberal principles'.

The point is, as we will see below, that the attraction of the concept and institution of transparency for these neo-liberals lies not in its utility for democracy but in its advantages for economic liberalism. How does this differ, if at all, from the position of other neo-liberals whose

institution-building agenda extends to various forms of political transparency and to the 'empowerment' and 'voice' of diverse social groups and interests?

Also within the neo-liberal camp, there are conceptions of 'liberty' and 'freedom' within which open political markets are deemed universally necessary to ensure open economic markets. Emphasis is thus placed on the role of political regulation and accountability in creating the conditions for effective and sustainable market systems. Political freedoms – including democracy – become important and routine ingredients in protecting private property rights and underscoring efficient market systems. However, the conception of democracy here is often procedural rather than substantive, with an emphasis on institutions that enforce accountability and restraint in the exercise of political and bureaucratic power. This is consistent with the general liberal preference for 'limited democracy', but it involves a much more developed notion of the economic utility of social and political institutions. Indeed, for some neo-liberals, this extends to notions of civil society and informal political participation. Again, though, this has an underlying market rationale: shoring up the political legitimacy of market systems and containing political conflict that could be injurious to the embedding of market systems. This grounding of ideas about political participation and democracy in the rationale of market functionality is crucial in distinguishing this as a neo-liberal framework, since it elevates and champions the values of the market ahead of values of political representation *per se*.

This category embraces a complex variety of liberal positions with a range of intellectual and philosophical roots. Influences include the ideas of John Stuart Mill who, in *On Liberty*, placed a great deal more importance on articulating the relationship between political freedom and economic freedom than classical economic liberals. The importance he attached to freedom of speech and political expression was based on utilitarianism and positivism. Only through open debate could truth be identified, reasoned Mill. Stifling opinion could be stifling truths and human progress (Arblaster 1984: 61). The ideas of Madison as they relate to the importance of informed citizens in checking abuses of political power are also in evidence (see Stiglitz 1999). The influence of de Tocqueville's notion that freedom requires active participation in public political life and his emphasis on the role of associations and organizations in that participation is detectable too, as is the more recent work of Robert Putnam (1993, 1995, 2000) on the same themes.

Importantly, de Tocqueville and Putnam both employ very generous understandings of civil society, which also emphasize social and

economic functionality. Many of the social and civic organizations that they deem to be part of civil society would not pass the more rigorous criteria adopted by other theorists insisting that collective action should be both genuinely independent of the state and be political in nature (Ehrenberg 1999). This definition disqualifies various forms of civic associations and organizations that are brought into structures of political co-option with the state. Such a distinction is important because social organization and civic society is not at all an anathema to authoritarian regimes. On the contrary, they are often harnessed to their reproduction (Gill 2000; Rodan 1996).

World Bank (2000, 2002a) publications have been pivotal in expounding these ideas on political liberalism and their market relevance. However, elements of them can also be found within aid agencies and various national and international non-governmental organizations (see USAID 2004; DFID 2003). But how then does this relate to the specific matter of building institutions of transparency?

Information and market imperfection

In the PWC argument about the need for institutional responses to market failures, the establishment of institutions to rectify information imperfections assumes a central place. Thus, the World Bank's 1998/99 World Development Report, *Knowledge for Development*, outlined in some detail the features of the new information-theoretic approach that lay behind prescriptions for increased transparency and information access in developing countries. It argued that 'knowledge gaps' and 'informational problems' were thwarting development.

The problem of 'knowledge gaps' led the Bank to call for a balance between the protection of intellectual property rights on the one hand, with efforts by developing country governments to 'develop the technological competence to search for appropriate technologies to select, absorb and adapt imported technology' on the other (World Bank 1998: 8). The Bank was principally making a case for governments investing in research-related social and physical infrastructure in developing countries. However, more recently Stiglitz (2003: 5) has shifted critical attention to the way that property rights act as 'a temporary monopoly over a certain idea' and often 'involve the enclosure of the commons' to the serious detriment of developing countries. Not surprisingly, these ideas have not been received with enthusiasm by neo-liberals in general. Libertarian ideas of economic freedom and their enshrinement in private property law don't sit comfortably with Stiglitz's observation.

By contrast, the 'informational problems' referred to by the World Bank have been the focus of considerable rhetorical and programmatic efforts by IFIs and neo-liberal forces in general. Nevertheless, there are significant differences in the understanding of 'informational problems' and the solutions to them to be found among these forces. In particular, some neo-liberals have expressed a broader conception of the link between information and the market than others, with ideas about the need to invigorate 'civil society' in order to address information asymmetries only selectively supported.

According to *Knowledge for Development* (World Bank 1999: 3):

> Institutions, broadly defined to include governments, private organisations, laws, and social norms, contribute to establishing recognised standards and enforcing contracts, thus making possible transactions that would otherwise not occur. Rich countries have more-diverse and more-effective institutions to address information problems than do poor countries.

Elsewhere the Bank signalled an expansive reform agenda aimed at closing this institutional gap: 'Greater information and transparency are vital for informed public debate and form increasing popular trust and confidence in the state – whether in discussing expenditure priorities, designing social assistance programs, or managing forests and other resources' (World Bank 1997: 10). This alluded to notions of 'empowerment' and 'voice', those very elements of the PWC that Summers, O'Neill and other neo-liberals were not entirely comfortable with.

The World Development Report 2002, *Building Institutions for Markets*, was to subsequently elaborate on the content and theoretical rationale of institution building to address information problems. This included the role of the media in providing information immediately useful for economic markets and the importance of reforms to ensure adequate access to public information, enabling journalists to investigate issues and disseminate reports. The report argued that the 'media can play an important role in development by affecting the incentives of market participants – businesses, individuals, or politicians – and by influencing demand for institutional change' (World Bank 2002: 192–3). It further observed that media 'provide information on political markets, exposing corrupt and unethical politicians' and play a role in 'giving people a platform to voice diverse opinions on governance and reform' (World Bank 2002: 181).[3] Crucially, though, through free media: 'Better information makes monitoring peoples' [*sic*] behaviour easier'

(World Bank 2002: 18). According to the Bank, 'the ability to monitor behaviour changes behaviour' (World Bank 2002: 18). The Bank was both aligning with North's (1995) theory on institutions as generators of interests and constituencies, as well as with the idea that information makes for efficient surveillance necessary to enforce market rules.

Although not all neo-liberals are comfortable with placing concepts of 'voice' at the centre of development strategies, appreciation of institutions of transparency to improve market discipline and embed market values through surveillance is universal. Thus, despite other differences with the Bank, Summers (2001) echoed the Bank's sentiment when he observed that: 'Transparency is good because, as someone once said, "conscience is the knowledge that someone's watching" '. However, the neo-liberal reform push for transparency has so far been weighted very heavily in favour of the most obviously market-instrumental forms of financial transparency. Other institutions fostering general political openness and accountability – such as a free press, freedom of information acts, mandatory public records of the interests of members of parliament and senior public servants, or the repeal of official secrets acts and other parliamentary acts limiting public access to official information – have not featured anywhere near as prominently.

Certainly in East and Southeast Asia, by far the greatest progress in the PWC transparency agenda has involved improved information reporting by governments and regulatory authorities. The IMF has been at the forefront of these developments, applying pressure for more transparent budget and monetary policy statements by governments, and the adoption of internationally agreed standards in accounting, disclosure and bankruptcy codes within the corporate sector. This information has been elicited through the Special Data Dissemination Standard (SDDS), the Code of Good Practices in Monetary and Financial Policies, and the Code of Good Practices on Fiscal Transparency. The purpose of these regimes has been no secret. In 1997, IMF Managing Director, Michel Camdessus (1997b), asserted that: 'Greater transparency will help strengthen market discipline and avoid market surprises that can lead to disruptive market reactions'. He subsequently elaborated: 'In order for surveillance to be effective, however, data provision needs to be timely, accurate, and comprehensive. Thus, the IMF has decided to be more demanding about the coverage and quality of the data provided to us and communicated to the markets' (Camdessus 1998a).

While many investors have welcomed the better macroeconomic and other data stemming from the IMF's transparency reform drive, the assumption that investors were completely in the dark about the extent

of corruption or the economic fundamentals in East and Southeast prior to the 1997 financial crisis does not hold up to close scrutiny. Indeed, the absence of transparency in Asia was in many instances part of the attraction to investors since the increased risk of investment also brought potentially higher returns (see Rodan 2004a). But focus on transparency did more than deflect attention to internal governance deficiencies in the crisis *post mortem*; it also offered a political means through which 'crony capitalists' and other obstacles to free markets – including 'developmental states' – could potentially be constrained. The linking of transparency shortfalls with 'crony capitalism' was thematic in IMF assessments of, and prescriptions on, the Asian crisis. The IMF's managing director, Michel Camdessus (1999), talked about transparency as the 'golden rule' of the new international financial system and described it as 'absolutely central to the task of civilising globalisation'. However, the IMF's aim of 'civilizing globalisation' clearly had 'crony capitalism' principally in its sights:

> A lack of transparency has been found at the origins of the recurring crises in the emerging markets, and it has been a pernicious feature of the 'crony capitalism' that has plagued most of the crisis countries and many more besides. More positively, the very first principles of the market economy tell us that open, competitive markets function only where transparency exists. (Camdessus 1999)

The sorts of transparency that the IMF was concerned about institutionalizing – information on foreign reserves, information on off-balance sheet transactions of central banks, about banking systems more generally – were as important in limiting the discretionary powers of policy makers and bureaucrats as they were in the intrinsic information they provided investors.

Governance or transparency? Comparing Malaysia and Singapore

This above point helps explain quite different assessments of, and reactions to, transparency reforms in Singapore and Malaysia by neo-liberal transparency ideologues and forces of neo-liberal globalization. Following the advent of the Asian financial crisis, governments in both these countries embraced the rhetoric of transparency and embarked on similar sets of reforms in efforts to impress international finance capital.

By any measure of transparency – whether in terms of macroeconomic data, banking or corporate disclosures more generally, or in terms of political transparency such as media freedom or declarations of interests by public officials – the regimes in these countries and the actual availability and quality of information were virtually indistinguishable and poor. However, in the international business media and in the patterns of international investment in the late 1990s and early 2000s, Malaysia was treated quite differently and received a great deal more criticism for its lack of transparency (Rodan 2004a).

The reason for this was the extent and nature of crony capitalism and associated corruption in Malaysia. This not only produced periodic bailouts of local tycoons and assorted favours to well-connected market players; it also had a general impact on the predictability and reliability of regulatory and supervisory regimes presiding over the market economy. The climate of the Asian crisis and fears of rising economic nationalism intensified reliance on governance reforms to secure the conditions for continued market liberalization and access of international capital to domestic markets. Increased transparency, in the form of improved regulatory and corporate accountability and disclosure, had the political attraction of exposing, and hopefully limiting, the effect of state–business power relations on the market.

To be sure, in Singapore institutional power has been exercised to protect and advance the interests of the ruling People's Action Party (PAP). The relationships between government-linked companies (GLCs), regulatory authorities and the concentration of bureaucratic power in the hands of individuals with links to the ruling party certainly raise questions of conflict of interest and how level the playing field is for market participants (Tan 2002). Nevertheless, perceptions of Singapore by investors and analysts have been mediated by capital's experiences of bureaucratic efficiency and the predictability and reliability of governance regimes when compared with the rest of Southeast Asia. By contrast, in the immediate years following the Asian crisis, journalists, professional financial and economic analysts and investors were concerned that the enmeshing of state and private sector interests in Malaysia necessitated a much greater degree of regulatory constraint. Furthermore, with the advent of the Asian crisis, the Singapore government increased competition in the banking sector liberalizations and accelerated its WTO commitments to liberalize the telecommunications sector. This was in marked contrast to the threats of economic nationalism emanating from other parts of the region. There was thus far greater anxiety about shortfalls in transparency within Malaysia where crony

capitalism was a less reliable and predictable framework for the neo-liberal agenda of trade and investment liberalization (Rodan 2004a).

Indeed, while Malaysia was being criticized for its lack of transparency, Singapore was able to enhance its governance reputation through various international surveys and studies. In 2001, for example, the professional services company PricewaterhouseCoopers (PwC) surveyed chief financial officers, equity analysts, bankers and PwC consultants in 35 different countries, from which it generated an Opacity Index. Opacity was defined as 'the lack of clear, accurate, formal, easily discernible and widely accepted *practices* (my emphasis)'. This covered the five factors of corruption, the legal system, government macroeconomic and fiscal policy, accounting standards and practices, and the regulatory regime. Significantly, this concept of opacity went beyond issues of information availability and disclosure to those of reliability and credibility of public policy and its implementation. Respondents were surveyed about the extent to which there were 'clearly established rules for changing and/or consistently applying regulatory rules and procedures' (PricewaterhouseCoopers 2001: 8). Singapore topped the ranking on the categories of corruption and regulatory opacity. No less significantly, this, and most other similar surveys, paid little or no attention to aspects of political transparency such as media freedom, an area where there has been no reform at all.

This is not to claim that Singapore has entirely avoided criticism or scrutiny in the new neo-liberal transparency drive. For example, more recently there has been selective critical attention through the United States–Singapore Free Trade Agreement (USSFTA). Here the concept of transparency has been harnessed in specific, selective challenges to the developmental state in an attempt to reduce the competitive advantages derived by GLCs from existing governance arrangements; the aim being to prise open more domestic market access for international capital, particularly in the banking and telecommunications sectors. Largely due to the efforts of a US lobby group called the Coalition of Service Industries (CSI), considerable energy was devoted during the negotiations towards achieving more transparent regulatory and licensing regimes in Singapore. Eventually, the agreement incorporated a range of commitments to enhance the transparency and independence of decisions by regulatory authorities, including the establishment of an independent dispute-settlement body for the telecommunications sector. The Singapore government has also committed to providing annual information to the United States on Singapore government enterprises with substantial revenues or assets. This pressure from the US is meant to

elicit details on how GLCs are run, by whom and what ownership levels and structures are involved (Rodan 2004b).

How significant these new forms of transparency prove to be in checking the market power of GLCs in the domestic economy remains to be seen. The likelihood is that the overall integrity of the developmental state will not be seriously threatened by the contents of this agreement. The ascendancy of the GLCs within the domestic economy is deeply rooted and will not be easily eroded. However, to the extent that any market access is improved for US-based capital then transparency provisions will have been useful for the concrete interests aligned to the CSI.

This highlights something that North's theory about institutions generating constituencies overlooks – that for these to take root in the first place, there need to be social forces with sufficient interest and capacity to make this happen (Chaudhry 1994). Political pressure and support from business communities for broad transparency reforms that extend to a free press and political openness has been particularly weak in those parts of Asia where major reform agendas have been advanced.

In the USSFTA, for instance, the Americans did not push for an opening up of the domestic media. Evidently there were neither commercial nor any other interests sufficiently organized or interested in such liberalization. Nor did media reform feature in the liberalizations associated with China's entry into the WTO. Civil society groups working towards political transparency objectives have generally been unable to build effective enough coalitions to pressure authoritarian regimes on these issues. The experience of the Malaysian chapter of worldwide NGO Transparency International – the Kuala Lumpur Society for Transparency & Integrity – provides further illustration of this point. Attempts to get members of the Malaysian International Chamber of Commerce and Industry (MICCI) involved in the organization have been totally ineffective, despite the ability to attract support from a wide range of human and consumer rights groups (Rodan 2004a).

Harnessing transparency to authoritarian rule

What the preceding discussion suggests is that the harnessing of forms of transparency to the attack on crony capitalism and developmental states is essentially one of institutionalizing technocratic – rather than liberal democratic – values. This attack is often a pragmatic one too, with the forces behind the neo-liberal agenda not so much wedded to principles of transparency, as keen to exploit their utility for improving

market access. Importantly, those forces may be only partially or periodically attracted to the vision of neo-liberal ideologues. Consequently, to differing degrees, these reform pressures can be accommodated by authoritarian regimes. Moreover, as we will see below in a brief examination of the Singapore experience, the rhetoric of transparency can be capitalized on by authoritarian regimes to both shore up international governance credibility and to deflect and suppress political contestation. At the outset of the heightened international emphasis on the need for improved transparency in Asia in response to the financial crisis, the Singapore government got on the rhetorical offensive. It understood the importance of being seen to be endorsing the principle of transparency. Indeed, keen to distinguish the Singapore system of governance from those in neighbouring countries, the then Senior Minister, Lee Kuan Yew, asserted: 'Because we are what we are, open and transparent, investors have confidence in us. The investors assess the situation and say, yes, this is a government and system that will tick in an honest and efficient way' (quoted in *Straits Times* 1999). Here Lee was conflating transparency with other governance factors important to international business of the sort that scored highly in the PricewaterhouseCoopers study discussed above. Yet the government also set about implementing a range of reforms to bolster the claim. This was, however, a programme with two characteristics. First, it exclusively involved forms of financial and economic transparency that raised levels of disclosure and accountability to the market. Significantly, though, few of these reforms have had any impact on the operations of GLCs, except those that happen to be listed companies. Second, the government cleverly exploited and co-opted the concept of transparency to the reproduction of the political regime.

In conjunction with the Singapore government's narrow reform programme, the government-controlled daily newspaper *The Business Times* has also played a role in promoting this sort of transparency. In 2000, it launched a Corporate Transparency Index (CTI), with weekly assessments of companies. The stated objective of the CTI was to 'assess, from shareholders' standpoint, several aspects – content, usefulness, timeliness and means of dissemination – of financial information disclosed by all companies on the Singapore Stock Exchange (SGX)' (quoted in Thompson 2000). Through this index, some listed GLCs were able to score well and help project an image of improving openness among them. Meanwhile, the core institutions of state economic secrecy, such as the Singapore Government Investment Corporation (GIC) and the state holding company, Temasek Holdings, have largely carried on in

opaque fashion – the exception being the publication by Temasek in 2004 of the first public report in its 30-year history. The government has been much happier to enforce increased financial transparency and accountability on the private sector than on the state's economic and political interests. This has resulted in various calls from the IMF not just for improvements to fiscal and monetary transparency of state institutions and GLCs (Rodan 2004b; Burton 2005).

Attempts by the government's domestic critics to widen the transparency reform agenda have been firmly resisted by the government, in part by drawing on international surveys and indices of governance performance that were favourable to the government. In 1999, Singapore's two most combative oppositionists, J.B. Jeyaretnam and Chee Soon Juan, established the Open Singapore Centre (OSC) on the basis that: 'Transparency and democratic accountability, whether in the public or private sector, will not come about unless we have an open society with accurate and verifiable information available to the citizens at all times.' The official response to the OSC initiative, however, was dismissive. Following a request from Jeyaretnam for a government grant to support OSC activities, Principal Private Secretary to the Prime Minister, Tan Tee How (1999), wrote in reply that: 'There is no need for your Open Singapore Centre. Singapore is already widely recognised as an open society which practices transparency and democratic accountability.' Tan cited rankings in Transparency International's Corruption Perceptions Index and surveys by Political and Economic Risk Consultancy on corruption to support his claim – neither of which are actually measures of transparency. Far from adding pressure on the regime for political transparency, the CPI in particular is regularly used to discredit arguments for such reform.

Ironically, it is the PAP rather than its critics that has thus far proven more adept in exploiting the discourse of transparency for political ends. In February 2001 a Political Donations Act came into effect requiring public record of donors giving more than S$10,000 in a financial year to any political party or association and restricting the total of anonymous donations to S$5,000. In itself, this constitutes improved political transparency that is difficult to argue with (Koh 2001). However, in a context where fear of political persecution is high, the legislation represents additional intimidation that could hinder the opposition's already meagre fund-raising capacity, and that of politically oriented associations. The act also bars political parties and associations from receiving funding from non-Singaporeans or foreign companies, which cuts off access to funding from liberal international NGOs that have

supported various liberal and democratic movements in the region that also struggle for resources. It may be no coincidence that the government declared its new bill just a matter of weeks after the Open Singapore Centre had secured a small amount of funding from outside Singapore.

The Registry of Political Donations announced in March 2001 that two non-party-political organizations registered with the Registry of Companies and Businesses – the OSC and the Think Centre – would be considered political associations and subject to the Act. Home Affairs Minister Wong Kan Seng cited OSC calls for a referendum on changes to the electoral process and protests against the ISA as evidence of political activities (Vasoo 2001a). Not only did the gazetting of these organizations foil their attempt to circumvent the Societies Act which limits political engagement to formally registered political societies, now they were under pressure to publicly divulge whatever limited sources of income they had. In the process, the PAP drew a contrast between itself as a party that had no foreign backers with its critics who apparently did but were reluctant to reveal details. Wong taunted J.B. Jeyaretman, telling reporters: 'You should ask Mr Jeyaretnam, if he promotes openness and transparency, where did he get the foreign money, why is he afraid to tell Singaporeans?' (quoted in Vasoo 2001a). In a clever turning of the tables, the OSC's calls for all ministers to declare their incomes and assets and for the Government Investment Corporation to open its books became lost in a sea of accusations that had the OSC on the defensive (Vasoo 2001b).

Conclusion

The neo-liberal objective of broadly institutionalizing the values of the market is an inherently political agenda, but one that is often concealed as such by the seemingly technical processes and ideas through which it is advanced. This is especially true of the neo-liberal transparency drive, which is being pursued in two fundamental ways. The first is by strengthening the regulatory mechanisms for surveillance of transgressions from market liberalism. This is a necessary foundation for effective disciplining of public and private policy makers and bureaucrats to the primacy of market rules. For those in the neo-liberal camp who differentiate little between economic and political liberty, transparency is also especially important for insulating some of the decisions in support of those rules from scrutiny and challenges by collective, organized political actors. The second is by promoting and embedding the ideological

notion that the value of transparency is to be measured – whether directly or indirectly – by its market utility. This ideology promotes an internalization of market relationships as natural and beyond contest by keeping the focus on how to make the market system function better.

There are differences among neo-liberals, with some positing an important role for formal political and civil society institutions in the transparency reform agenda. However, such ideas have exerted far less impact than the more immediately instrumental forms of transparency, such as financial transparency. This is because there have been concrete interests – or constellations of interests – effectively pushing and supporting the latter such reforms. As we saw in the Singapore case, this has not just involved elements of international capital but also state interests. By contrast, effective coalitions to push for political transparency have been harder to forge, not least because of international capital's indifference to such agendas.

The neo-liberal transparency agenda that has generally prevailed in Asia after the financial crisis seeks to have technocratic systems of governance institutionalized to secure the conditions for increased and more sustainable capital mobility. The pressure is towards technocractic managerial practices and values. For this reason, neo-liberal transparency need not pose a fundamental threat to authoritarian regimes in general and may even be selectively engaged with by such regimes to both satisfy capital and help regime legitimacy or reproduction. Crucially, the neo-liberal reform agenda is not about the removal of politics from public administration, but the establishment of a new politics that attempts to contain challenges to market relationships and privileges the interests associated with those relationships.

Notes

1 Co-editor of the *2004 Index of Economic Freedom*, Mary O'Grady (2004), for example, asserts that: 'Secure property rights help explain why Hong Kong and Singapore enjoy annual per capita incomes of better that $24,000 while Zimbabwe, where property rights have been trampled, has an annual per capita income of $559.'

2 This is not to say that the domestic business classes have not encountered problems with property rights, particularly during the 1960s and 1970s when massive state-managed housing and commercial redevelopments occurred. See Chan (2004).

3 These themes were amplified on by the World Bank Institute (2002).

12

European Social Democracy and the Neo-liberal Global Agenda: a Resurgent Influence or Capitulation?

Wil Hout

Introduction

Social democracy, in Europe and elsewhere, is attempting to respond to a neo-liberal global agenda to deepen market-oriented development and entrench a regulatory form of state authority. This agenda is built, in important respects, on the political dominance or – in terms of neo-Gramscian international political economy (Gill 1995: 404–5; Pijl 1998: 47) – the 'hegemony' of neo-liberal globalization, the first phase of which started in the late 1970s. Although politically dominant, however, neo-liberal globalization is not without its opponents. The 1999 Seattle meeting of the World Trade Organization (WTO) marked the birth of a vigorous international movement that rallied against the predominantly neo-liberal character of globalization (cf. Cavanagh *et al*. 2002: 17–53; Buckman 2004: 107–212). Furthermore, a considerable number of European social democrats have suggested alternatives to the neo-liberal variant of globalization. Significantly, a recent report written by former Danish Prime Minister Poul Nyrup Rasmussen (2003: 25) for the Party of European Socialists, highlights globalization as a prime reason for the formulation of a European 'progressive policy agenda … as part of social democracy's raison d'être in the new century'.

This chapter focuses on these European social democratic responses to the neo-liberal agenda and its model of the 'market state'. It will ask whether the social democratic response truly implies an alternative to the political supremacy of neo-liberal prescriptions for the governance

of markets. In particular, has European social democracy been absorbed into the rules of neo-liberal globalization, which has assumed many traits of being the 'only game in town', or are social democrats now mounting a real challenge to the agenda of neo-liberal regulatory governance?

There are at least two reasons to focus on the social democratic response to neo-liberalism. The first is that social democracy experienced a 'magical return' (Cuperus and Kandel 1998) in terms of its electoral successes in many European countries during the second half of the 1990s. Social democracy's electoral fortunes were built, to a significant degree, on programmatic reorientations – such as the 'third way' (United Kingdom), the 'neue Mitte' (Germany) and the 'shaking off of ideological feathers' (The Netherlands) – but had in common a distancing of social democratic political parties from significant aspects of their traditional ideology (Kalma 2004: 13).

The second, theoretically more important, reason is that various developments in the current international political economy may be interpreted, to use Polanyi's (1957: 209–19) term, as 'disruptive strains'. With Peter Evans (2000: 238), it can be argued that the current thinking about globalization is confronting a new incarnation of the 'Polanyi problem of reconciling free markets with stable social and political life': after several decades of policies focusing on the liberalization of markets, today's main challenge is to produce a viable attempt at the regulation of economic activity and the formulation of new institutional responses at the international level.

Importantly, the essence of social democratic thinking can be found in its perspective on the relationship between society and the economy. As summarized by Kalma (2004: 23), the major distinction between left- and right-wing politics can be located in their views on the shaping and influencing of economic-technological developments and on the degree to which the profit mechanism and the distribution of income and wealth are allowed to affect society. Broadly speaking, right-wing political parties defend the liberal market economy while social democrats and others on the left emphasize the need for market forces to be embedded within – and guided by – larger social and political principles. This chapter attempts to assess to what extent the social democratic principles of allocation and opportunity produce a convincing response to neo-liberal models of regulatory governance.

The argument proceeds as follows. The next section briefly outlines some of the most pertinent characteristics of neo-liberal globalization. Then we have a discussion of the return to power of social democracy in

various Western European countries during the 1990s and zero in on attempts at renewal of social democracy (the 'third way'). Following this, the formation of social democratic ideas on global governance is analysed, and we contrast the social democratic global reform agenda with some ideas brought forward by the anti-globalization movement.[1] The chapter is concluded by identifying and discussing several weaknesses inherent in the social democratic challenge to neo-liberal globalization.

Neo-liberal globalization

Neo-liberal globalization, the origins of which are to be found in the Reagan/Thatcher 'revolution' of the 1980s, 'prescribes that the contemporary growth of global relations should be approached with *laissez-faire* market economics through privatisation, liberalisation, and deregulation' (Scholte 2002b: 8). It can be understood as a politically inspired project to limit the influence of the state over economic transactions. In the 1980s and 1990s neo-liberal politicians were clearly implementing the prescriptions given by libertarian economists such as Friedrich von Hayek and Milton Friedman, who argued that governments do not work, while markets do. The embrace of libertarian prescriptions signalled the abandonment of those Keynesian economic principles which had emphasized regulation, planning and macroeconomic management (Yergin and Stanislaw 1998: 141–9).

Liberalization was a complex of measures aimed at reducing government involvement through policies of privatization and deregulation, and implied the elimination of laws and rules that were assumed to hinder competition in the market. Together, these principles – in addition to some others (such as fiscal discipline, tax reform, unified exchange rates and the abolition of barriers to foreign direct investment) – were epitomized in the 'Washington Consensus' (Williamson 1997: 60–1), the set of principles propagated by the international financial institutions and the US Treasury as the basis for sound economic policies.

Since the late twentieth century, the neo-liberal agenda has broadened. Joseph Stiglitz's (1998b) call for a 'post-Washington Consensus' has resonated with many policy makers. The core of the post-Washington Consensus is that it rejects its predecessor's market fundamentalism and that '[i]t sees government and markets as complements rather than substitutes' (Stiglitz 1998a: 22). In addition to policies aimed at the liberalization of markets, Stiglitz (1998a: 22) has emphasized the responsibility of government for the creation of institutions that help

markets to work efficiently, such as a legal framework and institutions, property rights, competition policies and contract enforcement. In Stiglitz's view, the global agenda should not stop at advocating the liberalization of international trade and finance: 'we cannot simply ignore the people living in the poorest countries that also do not have good economic policies. We need to help put in place good policies by providing advice and technical assistance. In addition, we should make investments in areas such as human capital that will be ready to support growth once good policies are adopted' (Stiglitz 1998a: 27).

Several factors seem to have been particularly important for the production and entrenchment of neo-liberal policies, and, more specifically, globalization. Privatization, liberalization and deregulation have been sustained by a variety of suprastate institutions (such as the International Monetary Fund [IMF], World Bank and WTO) and private regulatory institutions (e.g., in the international financial sector). Capitalist production has become effectively a worldwide phenomenon, with companies sourcing production factors and accessing markets across the globe. Economics has achieved primacy among social scientific academic disciplines while economics departments have produced a 'cadre' educated with a belief in the values of private property and the working of the market. Finally, a 'global managerial class' of regulators, business managers and knowledge producers has developed that supports neo-liberal premises (Scholte 2002b: 19–29).

The 'magical return' of social democracy and the 'third way'

The dominance of neo-liberal policies in the 1980s and part of the 1990s, aimed at welfare state retrenchment, privatization and deregulation, induced speculations about the 'end of the social democratic century' (Dahrendorf, quoted in Cuperus and Kandel 1998: 12). Yet, the 1990s, and especially the second half of the decade, was to be marked by the 'magical return' of social democracy (Cuperus and Kandel 1998) Electoral victories led to the return to power of social democratic parties in various European countries, such as the United Kingdom and France in 1997, Germany in 1998 and Belgium in 1999, while other countries, such as The Netherlands, Sweden, Norway and Denmark, had governments that included social democrats for the whole or a significant portion of the 1990s.

The most notable feature of this renewed presence of social democratic parties was undoubtedly the programmatic and strategic reorientation

process preceding the elections. Because of the great conflict that resulted from the reorientation of the British Labour Party under the leadership of Tony Blair – most importantly resulting in the expulsion of significant portions of the party's left wing – the transformation of Labour into New Labour has attracted most attention. Also, the attempt to supply this transformation with an ideological underpinning (the 'third way') resulted in ideological and programmatic discussions that involved many people beyond the Labour Party, also outside the United Kingdom (cf. Cuperus *et al*. 2001).

Anthony Giddens, *auctor intellectualis* of the new thinking about the third way, emphasized that globalization, in particular, requires the rethinking of classical social democratic precepts. Globalization, in this view, leads to increasing 'manufactured uncertainty' which is 'a result *of* human intervention into the conditions of social life and into nature' (Giddens 1994: 4). According to Giddens, the traditional reliance of social democracy on a cybernetic model of state activity, the aim of which was to control social, political and economic change, is being rendered irrelevant by globalization. In particular, the ensuing manufactured uncertainty about social and economic processes renders the cybernetic assumptions invalid and calls for a renewal of social democracy. More specifically, the 'crisis of Keynesianism', induced by globalization, proved that it was 'not possible to have national demand management in a globalised marketplace' (Giddens 2003: 2–3).

The 'new mixed economy' was launched by Giddens as the third way's political-economic ordering principle: its aim is to achieve 'a synergy between public and private sectors, utilizing the dynamism of markets but with the public interest in mind' and 'involves a balance between regulation and deregulation, on a transnational as well as national and local levels' (Giddens 1998: 100). According to Giddens, the third way should continue to emphasize equality and redistribution as political principles. Yet, 'it is no good pretending that equality, pluralism and economic dynamism are always compatible' (Giddens 1998: 100). Equality, for social democrats, should no longer be limited to redistribution but should rather, *pace* Amartya Sen, be 'focused upon developing people's capacities to pursue their well-being' (Giddens 2002: 39).

Overall, '[t]hird way politics should take a positive attitude towards globalisation – but, crucially, only as a phenomenon ranging much more widely than the global marketplace. Social democrats need to contest economic and cultural protectionism, the territory of the far

right, which sees globalization as a threat to national integrity and traditional values' (Giddens 1998: 64). In Giddens' view, the opportunities offered by globalization should pay off culturally and politically: '[t]he cosmopolitan nation implies cosmopolitan democracy, operating on a globalizing scale' (Giddens 1998: 138). The space beyond the nation-state, which has become more important because of globalization, should be regulated by regional and global institutions. For the purpose of enhanced governance, the integration of organizations such as the WTO, IMF and World Bank, or the formation of an Economic Security Council in the United Nations would be desirable. Further, the democratization of the United Nations, by adding an assembly or parliament – elected by national parliaments – to the current organs, would be a step in the right direction (Giddens 1998: 145–51).

The regulation of financial markets is taken to be 'the single most pressing issue in the world economy' (Giddens 1998: 148). Importantly, financial regulation would take place through the countering of currency speculation, for instance by the introduction of the Tobin tax[2] or the creation of a world financial authority, the main task of which would be to manage 'systemic risk in the world financial economy' (Giddens 2000: 126). Further, there should be attempts to regulate corporate power, at the national as well as the international level, aiming, among other things, at enforcing competition policies, countering the creation of international monopolies, monitoring corporate activities and fostering socially and environmentally responsible practices (Giddens 2000: 142–50). The third way should take in a position against 'the market fundamentalism of the neoliberals' and in particular the 'more aggressive forms of shareholder capitalism [that] risk destroying the social and civic frameworks that make a capitalist economy viable in the first place' (Giddens 2000: 152).

Social democracy and the neo-liberal global agenda

The social democratic response to the neo-liberal global agenda centres around the establishment or strengthening of global governance institutions at two interlinked levels. The first is what Cuperus has referred to as the political-ideological layer, concerned mainly with the implications of globalization for social democratic thinking. Second is what he has labelled the 'more programmatic level of political projects', which has to do with 'the general platform of a party or the "political ideologies" of a government' (Cuperus 2001: 156).

The political-ideological level: governance and cosmopolitan democracy

Paul Hirst and Grahame Thompson were among the first analysts to stress, from a social democratic perspective, the need for the strengthening of governance in response to globalization. The core of their argument is that 'market economies need to be appropriately governed if they are to perform effectively in meeting the substantive expectations of a wide range of economic actors … Most markets need to be embedded in a context of non-market social institutions and regulatory mechanisms if they are to produce effective outcomes' (Hirst and Thompson 1999: 192–3). Apart from governance at the international level, Hirst and Thompson focused on trade blocs, which are argued to 'represent a vital intermediate level between general institutionalized governance mechanisms for the world economy as a whole, such as the WTO, and the economic policies of the nation-states' (Hirst and Thompson 1999: 228).

The idea of international governance has been elaborated by British social democratic political theorist David Held, who has outlined elements of what he called 'the project of global social democracy' in his contribution to *The Progressive Manifesto*. The project contains several 'priority measures' for a 'new global covenant', elements of which can also be found in other social democratic responses to globalization, as discussed earlier in this chapter. The measures include the following aspects (Held 2003: 165–6):

- *the regulation of global markets*: the successful conclusion of the Doha Round, the elimination of subsidies of agriculture and textiles, and the reform of the regime of trade-related intellectual property rights;
- *the promotion of development*: the strengthening of the role of developing countries in the WTO and international financial institutions, debt cancellation for the least developed countries, the introduction of new assistance mechanisms, and the development of international tax regimes;
- *enhanced security*: more attention for humanitarian crises and the implementation of human development commitments;
- *the strengthening of international legal mechanisms*: the strengthening of international humanitarian law and the establishment of an international human rights court;
- *the reform of global governance*: reform of the UN Security Council and the establishment of an Economic and Social Security Council and an environmental organization, the development of criteria for fair

negotiations among states and non-state actors, and enhanced parliamentary control of regional and international bodies.

In Held's (2003: 168) view, Europe could play an important role: 'As the home of both social democracy and a historic experiment in governance beyond the state, Europe has direct experience in considering the appropriate designs for more effective and accountable supra-state governance.'

Held's ideas about governance are founded upon the concept of cosmopolitan democracy, which 'is a way of seeking to strengthen democracy "within" communities and civil associations by elaborating and reinforcing democracy from "outside" through a network of regional and international agencies and assemblies that cut across spatially delimited locales' (Held 1995: 237). Importantly, the cosmopolitan project is an attempt to make accountable 'those sites and forms of power which presently operate beyond the scope of democratic control' (Held 2001: 399). Elements of the cosmopolitan model of democracy, as summarized by Held (1995: 273), would be: the creation or strengthening of regional parliaments, the establishment of regional or global referenda, the entrenchment of civil, political, economic and social rights and the establishment of international courts to enforce these rights, and – as a final goal – the formation of an authoritative global parliamentary structure.

Interestingly, French political scientist Zaki Laïdi has pointed out that global governance is itself a potential battleground because of the different 'collective preferences' (values) involved. Where neo-liberal globalization has a clear preference for free trade and liberalized capital markets, social democratic globalization will prefer intervention into the workings of the market in order to achieve just outcomes (Laïdi 2003: 31–2). In an article written by Laïdi and former European Trade Commissioner, and current Director-General of the WTO, Pascal Lamy, six collective preferences were identified that the authors see as being of great interest to Europe: the non-market production of public goods; a non-hegemonic culture of global relations (human rights, cultural diversity and the rejection of unilateralism); the reduction of global inequalities; enhanced environmental protection; food security and health; and the respect for minimal social rights (Lamy and Laïdi 2002: 62–3).

The programmatic level: reforming and strengthening global governance

Over the past decade, several prominent European politicians, including Tony Blair and Gerhard Schröder, have made contributions to social democratic thinking about globalization and governance. In addition, a

number of key social democratic platforms, such as the Socialist International, the Party of European Socialists and the Progressive Governance Network, have formulated programmatic proposals on global governance.

An early attempt to stimulate the discussion about a social democratic response to globalization was made at the twentieth congress of the Socialist International in September 1996. The organization – not strictly European, but with a distinct European influence – emphasized its positive attitude towards globalization for reasons of economic efficiency, but called for 'an effective international system of collective responsibility to safeguard the market economy and the environment' (*Socialist International* 1996: 3).

The Global Progress Commission, founded by the Socialist International in 1996 and chaired by former Spanish Prime Minister Felipe González, stressed the need for strengthening leadership and governance in response to neo-liberal globalization: 'The hawks hold the market to be sacred and commend it to us as a golden calf. Deregulation is the linchpin of their strategy, and a political vacuum is therefore, in their eyes, a necessity … When all is said and done, globalisation poses a problem of governability' (González 1998b: 2). According to González, Europe would take in a prominent place in the social democratic response to neo-liberalism. He considered Europe to be a model for the organization of the international community, and its approach to 'open regionalism' an example of the 'new balances' needed for the establishment of peace and international cooperation (González 1998a: 7–8).

British Prime Minister Tony Blair and German Chancellor Gerhard Schröder were the political leaders who probably made the greatest effort to influence the programmatic thinking of European social democracy about globalization and international governance. Several key documents revealed that the two politicians perceived globalization as a new reality to which social democracy would need to adjust. According to Schröder (2003), '[g]lobalization is not an "option". Globalisation is a reality. It holds risks and anxieties, but it also opens up enormous possibilities.'

In a pamphlet published by the Fabian Society, Blair (1998: 6) stressed that the main challenge for social democracy would be to 'engage fully' with the implications of economic and social changes, the most important of which were summed up as: the growth of increasingly global markets and culture, technological advance and the rise of skills and information as the key drivers of employment and new industries, a transformation in the role of women, and radical changes in the nature

of politics. The response to these changes, according to Blair (1998: 3), should be informed by four values: 'equal worth, opportunity for all, responsibility and community'. In the international domain, institutions should be strengthened 'for the management of trade, finance, the peaceful resolution of disputes, and to ensure swift responses to pressing new problems, like the crises in Asia and Russia and the threat to the global environment' (Blair 1998: 18).

A joint declaration of the British and German social democratic leaders – which came to be known as the Blair/Schröder document – published in June 1999 took a similar approach, calling for the modernization of social democracy, which would imply 'adapting to conditions that have objectively changed', such as 'ever more rapid globalisation and scientific changes' (Blair and Schröder 1999: 1–2).

Blair and Schröder were among the politicians prominent in the Progressive Governance Summits of heads of state and government, held since 1999, and which, in June 2000 launched the idea of a new international social compact, aimed at 'a more inclusive and sustainable international division of wealth and opportunity' (Progressive Governance Network 2000: 3). The main governance issues singled out at the meeting were:

- strengthening of the multilateral trade system and the provision of enhanced market access for products from the least developed countries;
- improvement of the institutional framework of financial markets and debt-relief for highly indebted developing countries;
- prioritising of direct effective development assistance;
- the development of new mechanisms, such as emissions trading, for sustainable development (Progressive Governance Network 2000: 3–4).

At a later meeting, the reform of the United Nations and development–related trade issues, such as the abolition of agricultural subsidies and market access, were added to the priorities (Progressive Governance Network 2001).

A landmark of recent social democratic writing about globalization and global governance was the report written for the Party of European Socialists (PES) by former Danish Prime Minister Poul Nyrup Rasmussen, in preparation for the 2004 elections of the European Parliament. Rasmussen (2003: 115) argued that the European Union should 'play an active role in shaping globalisation'. One important recommendation was that the EU should establish itself as a partner of the developing

world, among others, by initiating development policy innovations and by playing an active role in the WTO's Doha Development Round. Another notable proposal called for a leading role for the European Union 'in developing and promoting … a new global vision' (Rasmussen 2003: 117), which would imply, among other things, the elaboration of a global legal order, reform of the IMF and the regulatory framework for the finance sector, the development of a new agenda on global taxation, and support for the provision of global public goods. As part of its efforts, the EU should try and improve the capacity of existing global governance institutions in the middle run, and advocate profound reform of the United Nations system in the long run. The latter would imply the creation of a host of new institutions, such as a World Environment Organization, a Human Development Council (or Social and Economic Security Council) and a UN Parliamentary Assembly.

The declaration on *Governance in a Global Society*, adopted by the Socialist International in 2003, emphasized three dimensions of a social democratic strategy (ecological, economic and social), which would need to result in a *New Global Deal* between industrialized and developing countries. This New Global Deal would require that developing countries pursue integration into the global economy and improve their policies and institutions, while industrialized countries open their markets, encourage investment and increase financial assistance (Socialist International 2003a: 2). The Socialist International (2003b: 18–25) emphatically rejected the neo-liberal Washington Consensus and structural adjustment and argued for the reform of the Bretton Woods institutions and the regional banks as well as a form of global taxation to fund global public goods and development policies. Reform of the international financial architecture should include, in the view of the Socialist International, changes of the decision-making procedures of the international financial institutions and the creation of a World Financial Authority, linked to the establishment of a UN Council for Sustainable Development. Finally, a new international finance facility, funded by a form of global taxation, to achieve the Millennium Development Goals, and a new debt workout mechanism for developing countries (an 'international bankruptcy system') would serve to make the international financial system more development-oriented.

Social democracy's global reform agenda and the anti-globalization movement

European social democracy has taken a fundamentally reformist position *vis-à-vis* the current international political-economic system.

While globalization is not normally rejected, some of the system's features are felt to be in dire need of a system of governance that would guard against the excesses of a concentration of wealth in certain parts of the world and the marginalization of other parts. Thus, the core element of contemporary social democratic thinking lies unmistakably in the establishment and strengthening of global governance mechanisms and in opposition to the neo-liberal emphasis on further liberalization of trade and capital markets. Instead, social democrats tend to focus on the need to regulate international markets in order to avoid undesirable and unjust outcomes. They emphasize the provision of global public goods, in particular development, security and environmental sustainability. Finally, they stress rule-based governance as opposed to the 'might makes right' approach inherent in power politics, and they see the need for enhancing both democracy and accountability at the international level.

At the programmatic level, social democratic thinking generally supports the efficiency-enhancing character of globalization, but adds that the rules of globalization should be taken seriously and that producers in the developing world be guaranteed access to markets in the industrialized countries. Several authors have pointed at the desirability of a partnership between Europe and the developing world. Further, social democrats have underlined the need for institutional reform of the international system. Reform proposals include the regulation of financial markets, debt relief for highly indebted developing countries, the introduction of a form of international taxation, and the reform of the international financial institutions (IMF, World Bank and regional development banks) and the United Nations system (by creating, for instance, a World Environmental Organization, a Human Development Council and a UN Parliamentary Assembly).

Social democracy's global reform agenda appears to contain elements of both the pro- and anti-globalization viewpoints, and to represent a middle ground between acceptance and rejection of the ongoing process of globalization (Held and McGrew 2002: 99). In particular, there appears to be much scope for agreement between social democracy and an important stream in the anti-globalization movement, which Buckman (2004: 122–49) has termed the 'fair trade/back to Bretton Woods school'.

This school's ideas and proposals centre on differential treatment of poor developing countries in trade matters and the abolition of rich country protectionism, primarily in agriculture; introduction of labour and environmental clauses into international agreements; protection of raw material producers; reform of the World Bank, IMF and WTO;

reduction or cancellation of Third World debt; the introduction of a Tobin tax and an international bankruptcy mechanism; and the regulation of foreign investment, transnational corporations and international capital markets.

The social democratic global reform agenda differs, however, on major issues from the radical anti-globalization (or alter-globalization, see note 1) stance, as represented, for instance, in the International Forum on Globalization (IFG). The IFG, which has brought together a good number of scholars and activists from a variety of backgrounds and institutional affiliations, has made an attempt to develop alternatives to neo-liberal globalization under the motto 'Another world is possible'. As the IFG has put it, '[c]reating a world that works for all must begin with an effort to undo the enormous damage inflicted by the free trade economic policies that so badly distort economic relationships among people and countries' (Cavanagh *et al.* 2002: 37). The main targets of the anti-globalization movement are organizations such as the World Bank, the IMF and the WTO, which are seen as the main instruments for promoting neo-liberal, corporate globalization. In conjunction with other main forces of neo-liberal globalization – such as the US government and international business – these organizations are seen as the main actors that have imposed neo-liberal policies on developing countries under the pretext of 'structural adjustment' of national economies (Cavanagh *et al*. 2002: 37–52).

The radical stream within the anti-globalization movement – labelled the 'localization school' by Buckman (2004: 150–65) – focuses on the self-reliance of national and regional economies and emphasizes that trade, investment and capital markets should be as locally based as possible. According to this school, international economic organizations such as the World Bank, the IMF and the WTO should be replaced by more democratic, less powerful institutions with a much narrower mandate. Transnational corporations should be subject to much stricter regulation. Some proposals made by the localization school undoubtedly resonate well with social democracy, but its emphasis on localized activity and its overall mistrust of global transactions tends to find little support among social democrats generally.

European social democracy and the limits of future influence

Several commentators have argued that social democracy has essentially capitulated to capitalism and is no more than a marginal variant of

hegemonic neo-liberalism. For instance, Marxist Alex Callinicos (2001: 124) has argued that social democrats, in their attempt to regain electoral support, have embraced liberal capitalism and have stopped being genuinely reformist. The programmatic reorientation, in his view, is 'the tragedy of social democracy' as it means 'abandoning its attempt to achieve a fairer and more humane world'.

When focusing on the traditional character of social democracy – earlier summarized as the attempt to embed and guide market forces and to limit the extent to which the profit mechanism and the distribution of income and wealth are allowed to affect society (Kalma 2004: 23) – a different conclusion suggests itself. This is a conclusion which locates contemporary social democracy in the middle ground between neo-liberal globalization and anti-globalization.

As was shown above, European social democrats emphasize the need to regulate and reform international economic, social and political processes rather than to propose its outright rejection. The dominant tendency among European social democrats is to play along in what they take to be the only game in town (globalization), while at the same time trying to change the rules of that game, by emphasizing regulation, regional and global governance, and accountability and democracy. Leaving aside the radicals who reject globalization altogether, Hay's (2000: 144) interpretation of social democracy's views of the 'outside-in' impact of globalization may be rephrased in terms of the political thinking about the international order. This thinking is best understood as being bifurcated, with neo-liberal globalization (with its emphasis on privatization, liberalization and deregulation) representing one variant, and 'social globalization' (Laïdi 2003) or 'globalization plus' (Dahrendorf 1999) being an alternative approach.

As Peter Evans (2000: 238) has convincingly argued, the current global order is witnessing a new variant of the 'Polanyi problem of reconciling free markets with stable social and political life'. Certain recent events may be read as 'disruptive strains' in the Polanyian sense of the term (Polanyi 1957: 209–19). The Asian financial crisis of 1997–98 gave credence to the sceptics' view about financial liberalization and led to renewed attention for attempts to regulate international finance (cf. Scholte 2002a). Fears about the effectiveness and representativeness of the United Nations brought the UN Secretary-General to install, in September 2003, a high-level panel to review the functioning of the United Nations and recommend institutional changes (Annan 2003). Opposition from various developing countries to the so-called Doha Development agenda at the Cancún Ministerial Conference in

September 2003 produced a temporary crisis in the WTO and led ultimately, in August 2004, to substantial changes in the direction of the current round of trade talks (WTO 2004).

It is probably too early to draw firm conclusions about the impact of these and similar 'disruptive strains', but social democrats may try and build on the increasing doubts about the neo-liberal agenda to press for changes analogous to the 'compromise of embedded liberalism' (Ruggie 1983: 209–14) that came into existence after the Second World War. While 'rejectionist' proposals from the anti-globalization movement may only be appealing to a relatively small radical constituency, the more moderate social democratic focus on governance mechanisms, institution building and democratization may elicit support from people across the political spectrum, who share the fears about the recurrence of financial crises, the inequitable character of the existing trade system, and the inability of the international community to respond to humanitarian tragedies and terrorism.

The fact that the social democratic approach to globalization is potentially promising does not mean that it is without weaknesses. In particular, the reliance on governance and institution building at the international level makes the social democratic project vulnerable to non-cooperative behaviour by important states. International institutions are generally perceived as positive: they are associated with coordination, order and predictable – and, some would add, just – outcomes. Yet such generally positive valuation of international institutions overlooks the fact that the institutions are rarely in a position to act truly independently of the political units that have created them. As leading IPE scholar Susan Strange (1983: 345) pointed out more than two decades ago: 'All those international arrangements dignified by the label regime are only too easily upset when either the balance of bargaining power or the perception of national interest (or both together) change among those states who negotiate them.' The social democratic position is, thus, susceptible to the unilateral behaviour of states that find it not in their interest to conform to international decisions. The 2001 decision of the Bush administration to withdraw US support from the Kyoto Protocol illustrates how changes in the perception of political interests may render institutional arrangements impotent, even though many observers would argue that the impending threat of global warming constitutes one of the most important 'disruptive strains' threatening neo-liberal growth policies. Likewise, the Bush administration's decision to 'unsign' from the Rome Statute on the establishment of the International Criminal Court in May 2002, almost one-and-a-half years

after the Clinton administration had signed up to it, demonstrates the clash between considerations of national interest and the desire to arrive at global governance instruments in the face of humanitarian atrocities.

Nor is the creation of institutions, a hallmark of the social democratic project, identical to achieving certain desired policy outcomes. When created, international institutions acquire their own dynamics, the result of the interaction among their members and which may have partly unforeseen consequences. The recent history of European integration makes this abundantly clear. European social democrats were largely in favour of the re-launching of European integration in the early 1990s and of the treaty that established the European Union in 1992 (the Maastricht Treaty). Support for the Economic and Monetary Union (EMU) was, at first, coupled with the promise that simultaneous negotiations would start on a political union (Tsoukalis 1997: 50–1). Lack of progress with the latter issue, caused by the outright resistance of some member states to the strengthening of European institutions, resulted in the creation of an independent European monetary authority without either a complementary political locus of power or centralised economic and budgetary policies (Tsoukalis 1997: 184–5). In 1997 the discussion about the budgetary and fiscal guidelines that were to be imposed on the EMU members' policies resulted in the Stability and Growth Pact. This agreement focused heavily on budgetary discipline and was widely perceived as an attempt to rule out the possibility of expansive budgetary policies aimed at the reduction of unemployment – the preservation of which social democrats appeared to have valued very highly.

A third potential weakness of the social democratic position relates to strategy. At the level of national states, social democratic parties have achieved a majority position only in exceptional cases and even then only for limited periods of time. At the international level social democracy is likely to continue operating from a minority position. This means that support from other political forces is necessary for the adoption of the social democratic programme on globalization. The European Stability and Growth Pact is one illustration of how attempts at regulation may not be fully consistent with social democratic objectives. Historically opting for reform of rather than outright opposition to the existing capitalist order, social democrats are reliant on coalitions with forces within the orthodoxy, rather than with rejectionist movements such as the anti-globalists (although the latter may well adopt a more reformist programme, as is shown by the history of the German Greens, and thereby become *salonfähig*). Coalitions with political forces from within the orthodoxy are an inherently unstable basis for any

ambitious programme for change, requiring constant compromise and the risk that social democratic programme of international governance, institution building and democracy will remain essentially cosmetic.

Connected to this, a fourth weakness of the social democratic position concerns the level of domestic support for its policies. Various social democratic politicians, most notably Britain's Tony Blair and Germany's Gerhard Schröder, have stressed the need to reform national welfare state regimes in the light of the pressures exerted by the intensifying levels of global competition. Policies introduced by social democrat governments – aimed at, among other things, increasing labour market flexibility – have produced increasing disenchantment among the electorate, currently most visible in Germany. This makes it increasingly likely that social democratic will be replaced by conservative governments more inclined to adopt policies that are grafted upon orthodox neo-liberal assumptions, and to discard social democracy's policy heritage.

At the same time, social democratic governments have generally been unable to effectively change the direction of policy making in some key areas because of the hegemony of neo-liberal policy precepts. The dominance of the neo-liberal approach to development policy, an area traditionally cherished by social democratic politicians, may serve as one – though certainly not the only – case in point. Swept along in the post-Washington Consensus, a central assumption of current development policies is that it is the proper functioning of markets in developing countries that determine institutional requirements there. Social democrats worldwide cannot escape the dominance of this essentially neo-liberal assumption – witness, among others, Joseph Stiglitz's (1998a) 'agenda for development', which was included as an example of the 'global third way' by Giddens (2001), the policies initiated by Dutch social democratic Minister Eveline Herfkens between 1998 and 2002 (cf. Hout 2002), and the proposals of Tony Blair's Commission for Africa (Commission for Africa 2005: 228–9). The space to support 'heterodox' development policies, as advocated, for instance, by former Dutch social democratic Minister for Development Cooperation Jan Pronk (2001: 625), is effectively limited because of the hegemony of such neo-liberal policy prescriptions.

The impending 'Polanyi problem', which involves the reconciliation of markets and political and social stability, will need to be addressed in the years to come. The signs are that the strains resulting from neo-liberal globalization are putting increased pressure on the neo-liberal global agenda. To the extent that neo-liberal solutions are perceived as

unsuccessful or illegitimate, social democracy may yet find new opportunities to implement its reformist agenda of global governance and institutional change.

Notes

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1 Since the European Social Forum in Paris of 2003, the term 'alter-globalization' is often used to signal that parts of the so-called anti-globalization movement are not so much against globalization per se, but that their main target is the neo-liberal variant, with its emphasis on global economic relations. Alter-globalization is used to emphasize that sections of the movement support globalization, but wish to see an alternative development path.
2 The Tobin tax is a turnover tax on the sale of financial assets (usually currencies) of between 0.1 and 0.25 per cent (cf. Jetin and De Brunhof 2000).

13

Economic Constitutionalism, Liberalism and the New Welfare Governance

Kanishka Jayasuriya

Introduction: economic constitutionalism and the new welfare governance

At the beginning of the twenty-first century the neo-liberal market model that had so dominated economic and social policy making during the later decades of the previous century appears to be under increasing pressure. This arises not only from anti-globalization movements such as the World Social Forum, but also from the populist politics of elected governments in the newly industrializing countries. For example, in Latin America, the election of leaders such as Lula Da Silva of the Brazilian Workers Party, Nestor Kirchner in Argentina, and Hugo Chavez in Venezuela, appears to have reversed the trend of some of the main tenets of the 'Washington Consensus'. In East Asia too the election of Thaksin Shinawatra on a platform that championed Thai nationalism in opposition to the austerity policies advocated by the IMF suggests that even on the 'home turf' of the Washington Consensus, the 'miracle' economies of East Asian neo-liberal economic policies that so dominated the 1990s are facing mounting pressures. Compounding these trends has been the development of a raft of policies and programmes that focus on issues such a poverty reduction and social safety nets[1] promoted by international financial institutions (IFIs), and especially the World Bank. These developments would seem to provide clear evidence of a growing concern with and awareness of the social dimensions of economic development that were absent in the era of the hard-edged neo-liberalism of the Washington Consensus. But to see this new welfare governance as part of a movement back from economic to social policy is to miss the fact that this new policy strategy seeks to entrench

a form of 'market citizenship' that differs to a considerable extent from that reflected in the political grammar of postwar social democracy.

This chapter explores the nature and dimension of this emerging policy framework, particularly in its relationship to the neo-liberal market model. As we shall argue, the social policies underlying this framework arise out of, but are not reducible to, neo-liberalism. This viewpoint pivots on the break between the postwar social settlement in industrial democracies reflected – albeit in different ways – as a notion of welfare seen as a means of compensation or redistribution to redress the operation of market forces. These notions of welfare, however, are being overtaken in the shift from what I have previously described as 'social constitutionalism' to a form of 'economic constitutionalism' (Jayasuriya 1999, 2001, 2005). This new constitutional order is not confined merely to formal legal practices, but also pertains to the broader set of state-society relations as well as the guiding normative principles of the political order. Importantly, this reorientation to a new form of constitutionalism privileges the pursuit of economic and market order which fosters a notion of welfare as market citizenship. The crux of the argument being advanced here is that social policy still plays a crucial role in these new forms of economic constitutionalism, but it is designed and shaped so as to enhance inclusion within the market rather than being preoccupied with the earlier emphasis on notions such as the redistribution of income.

One of the consequences of this location of welfare and social policy within the market is to reinforce a new language of liberalism that contrasts with the conflict, negotiation and mediation of social interests within postwar social constitutionalism. There is here a crucial shift in the language of liberalism away from political pluralism and towards the regulation and imposition of standards that are congruent with the larger objectives of the economic order. In the Introduction to this volume, Robison suggests that neo-liberalism is a process that leads to the marginalization of representative politics. This chapter explores the language of liberalism associated with the new welfare governance. A governance that articulates liberalism that seeks to create new liberal subjects and institutions whose purpose and ends are shaped by economic imperatives that are seen to be inimical to pluralist politics of interest.

Framed in these terms the policies and programmes instituted by political leaders drawn from countries such as Brazil (Lula) or Thailand (Thaksin) represent a kind of 'third way' politics that bears comparison with the policies of New Labour in the UK. Like New Labour, it could be

argued that both Brazil and Thailand reflect a move that attempts to reconcile fidelity to market imperatives with policies dealing with issues of social disadvantage. In fact, in Brazil, Cardoso,[2] and, subsequently, Lula, have been active participants in the third way progressive governance conferences. The enrolment of Lula in the third way enterprise is noteworthy because Lula's Workers Party was cast very much in the mould of a traditional socialist party. What this would appear to indicate is that Lula's programme is in many ways a continuation of Cardoso's policies and programmes.

These trends have led some to fear – and others to hope – that the neo-liberal market model may be on the wane. Although there is an element of truth in this it can at the same time be misleading. The plausibility lies in that it highlights the way that the market model, or neo-liberalism, is being modified; but it is misleading in the assumption that this modification itself reflects a significant departure from the basic neo-liberal economic reordering that has been undertaken in Latin America and East Asia. What is intriguing is that this emerging model denotes a continuing commitment to economic liberalization, but with a strong emphasis on a whole new set of social contracts between the citizenry and the state.

What these new social forms and arrangements promoted in countries such as Brazil and Thailand, and also by the World Bank through its new social policy agenda, point to is a neo-liberal sociability which may be understood as a 'socialization of neo-liberalism'. This understanding of sociability frames social issues or the 'social question' not in the language of social democracy, but in economic constitutionalism in a manner that makes it compatible with market efficiency. Hence, insofar as this brings back the 'social' it seeks to reframe the social or economic problems, within, rather than in opposition or in contestation to, the market. And, crucially, it rejects the social democratic argument central to 'social citizenship' – namely, that the market, if left unhindered, will produce inequalities of income which can only be rectified through public intervention. The expectation is that these new social policies will, in the long term, work to include citizens within the sphere of the market rather than seeking to – as in the more orthodox models of welfare – insure against the vagaries of market misfortunes. Moving away from the conventional insurance model of welfare towards a more inclusive model constitutes an understanding of citizenship' very different from that contained in the Marshallian sense of citizenship and welfare (Marshall 1964). By contrast, economic constitutionalism promotes a productivist version of welfare where issues of poverty and inequality

are 'identified with individual trajectories of social exclusion and the idea of shared social risk as the basis for organising solidarity is rejected' (Procacci 2001: 51). What is, therefore, so distinctive about these social contracts is the development of a market citizenship which, above all, is consistent with neo-liberal projects of economic reform. Neo-liberalism, then, in this view is more than a set of economic prescriptions, but is increasingly about the creation of new forms of sociability that promote enterprising subjects and values.

Market citizenship, welfare and economic constitutionalism

Therefore, the argument here is not so much about the shift of expenditure or the retreat from the welfare state, but a fundamental reformulation of the idea of welfare. Much of the literature on the welfare state has remained exclusively concerned with distinguishing regimes and patterns of welfare to the exclusion of any normative practices that came to be embodied in welfare policy programmes and policies (Esping-Anderson 1990). As Pinker (1979) notes in his prescient book written just before the Thatcher era, there have always been competing traditions or ideas of welfare and these ideas, in turn, have reflected different understandings of the relationship between the market and welfare. In fact, Pinker (1979) draws pointed attention to – and implicitly advocates – the varying currents of what Levitas (1996, 1998) has elsewhere called a 'social integrationist' model of social policy. The integrationist model envisages a different relationship between market and social policy from that implied in the then dominant social democratic framework of social policy. Thus, Pinker (1979: 241) advocates what he calls a model of welfare 'which sees no fundamental incompatibility between the enhancement of social welfare and the values of the mixed economy and pluralist social order'.

In tracing this productivist tradition in Britain to both Keynes and Beveridge,[3] Pinker implicitly appears to be contrasting this with Titmuss's (1974) notion of the welfare state as an 'institutional redistributive model'. In fact, during the last decade this social integrationist perspective has become much more influential as evidenced in the growing popularity of terms such as 'social exclusion' and 'social capital'. Welfare, as the thrust of Pinker's argument suggests, is by no means a static concept. Significantly, he draws attention to the fact that competing forms of welfarism represent a version of a preferred model of social association and a relationship with the market. The implication of what

Pinker is suggesting is that citizenship, or rather the normative grounding of citizenship – seen as the decisive link between welfare and the market – has always been historically variable. This is no less true for the postwar model of social citizenship so well articulated by Marshall.

But 'ideas of welfare' are not a free-floating set of traditions that can be picked off at one's fancy. Rather, they remain tied to various political projects of citizenship and statecraft and the real question is: how and why are certain ideas of welfare replaced by others. Market citizenship carries with it a distinctive model of welfare that fundamentally changes the relationship between welfare and the market. And it is this shift towards 'market citizenship' which makes the new social policy a political project that is more than a simple amalgam of public policies. It also entails changes in the patterns and routines of statecraft as well as providing a distinctive model of social organization and association that is less based on class relations and more focused on access to and participation within the economic sphere.

Hence citizenship, or rather the changing regimes of citizenship, lies at the heart of new frameworks of social policy. We know citizenship can be defined either as a status or a practice; as a status, citizenship is defined by its legal attributes and conditions of access to various entitlements; as a practice it is constituted through the way it is exercised by individuals in various social and political domains. In reality, any citizenship regime will be a combination of both 'legal status' and political practice, and as Lister (1997: 41) argues:

> Citizenship is thus conceptualized here both as a status, carrying a wide range of rights, and as a practice, involving both obligations and political participation, broadly defined. Both as a practice and in the relationship between that practice and rights, citizenship can be understood as a dynamic process.

Lister's insight here about citizenship as a dynamic process provides us with the starting point for an understanding of citizenship being fundamentally a political process that reshapes state practices and institutions. And it is market citizenship that lies at the heart of the new welfare governance.

In formulating his own version of asset-based welfare, White (2004) points out that there are various strands of economic citizenship ranging from the libertarian to the new workfare programmes of the US. White is keen to distinguish between some of these market strands of economic citizenship from the substance of what, in his view, are

potentially progressive policies such as widening asset ownership within the community. White is right to point out the range of positions that can be found within the framework of economic citizenship, but the problem with this argument is that it fails to identify what links together these various notions of economic or market citizenship. We can identify five fundamental elements that link market citizenship. These are:

i. citizenship is framed within the market rather than in opposition to or in compensation from consequences of the market;
ii. social policy within the market citizenship is designed so as to make a productive contribution or enhance greater participation within the economy;
iii. participation is individualized in terms of the ability to mobilize individual endowments of capacities and assets;
iv. social policy moves from a rights-based to a contractual version of welfare that makes social policy claims conditional on the performance of specified obligations or duties; and
v. market citizenship tends to define social association in terms of access to, and participation within, the market.

In this sense 'third way' programmes of all shapes and hues can be considered as programmes that give effect to forms of market citizenship. Instead of being in tension with the market, key ideas such as equality and redistribution have become reframed in a way that promotes inclusion within the productive sphere of the economy. Most crucially, in third way programmes such as that in New Labour in the UK, equality is understood as an 'equality of opportunity' where fairness is assessed in terms of participation within the market. It is a formulation that moves equality – as an issue of the redistribution of income – to a notion of equality as inclusion and participation within the market economy (Cammack 2004).

These third way ideas, therefore, resonate with those traditions of welfare that seek to combine welfare with a productive market economy. Importantly, this goes well beyond the specifics of the third way programme to encompass a whole range of policy agendas such the World Bank's 'social capital' approach or the European Union's 'social inclusion' policy. The common thread running through these otherwise different conceptions is a reworking of the 'social question' as one bearing market citizenship rather than social citizenship.

What this implies, as Rosanavallon (2000: 5) notes, is that 'in both cases the philosophical crisis of the welfare state indicates a decisive

change in the perception of society that has prevailed for more than a century'. Rosanvallon, like Giddens, sees this transformation as driven by a new form of modernization that works to undermine the assumption around which the modern welfare state was built and consolidated. New forms of economic complexity and risk, it is argued, demand that social policy be directed at furthering the risk management capacities of individuals. Arguing along these lines the new social policy frameworks seek to place a high premium on the identification and prudential management of risk.

Casting these new social policy frameworks as the products of an inexorable process of modernization is limited in that it obscures the political context in which these new frameworks now thrive. What is overlooked here is the fact that what we call the social democratic logic of the social question rested on a particular political grammar around which issues of equality and welfare were framed. As we have argued, what is significant about the new social question being posed by variants of the third way is the *manner* in which they enable or embed market processes within the social process. The new welfare governance seeks to develop those capacities and endowments of individuals that will enable them to compete more effectively in the productive mainstream of society. The Workfare programmes which have characterized Anglo-American social policy over the last decade demonstrated a vivid example of this mode of thinking (Walters 1997).

Linking markets to welfare

Central to our argument is that this shift from social to market citizenship is expressive of a deeper transformation in the liberal order. Social citizenship was organized around the negotiation and conflict of interest which originated in the dualism between market and the social sphere. In contrast, market citizenship reflects a more anti-pluralist understanding of politics that seeks to subordinate social policy to market imperatives. It marginalizes those social relations that arise in conflict with the market in favour of modes of social association based on access to – and participation within – the market. Consequently, notions such as *social capital* and *community* have come to replace class and social conflict; and, importantly, this reflects a deeper transformation in the language of liberalism towards inculcation of certain standard of behaviour or values rather than mediation and negotiation of social conflict. We explore two earlier liberal traditions – the ordo-liberals and the New Liberalism – as a way of putting some flesh on the liberal language of market citizenship.

At the core of this new market citizenship and the welfare governance are two key liberal concepts of welfare: one is the idea of 'inclusion' of all citizens within the economic mainstream, and the other is that of economic independence to enable individuals to compete more effectively within a globalized market economy. But this language of liberalism, I argue, moves away from the politics or pluralism of social interests – sustained by the competing ontologies of the market and social solidarity – towards a liberalism that is increasingly anti-political. The new welfare governance therefore needs to be understood in terms of this more fundamental reconstitution of the language of a pluralist liberalism. Social contracts, then, somewhat surprisingly, become the leading edge through which these New Liberal subjects are being created.

The notion of inclusion occupies a key role in the justification for welfare couched in terms of including individuals in the mainstream of social and economic life, and finds expression in those policies designed to promote a social market economy. An important precursor to this understanding of the social within regulatory neo liberalism can be found within the ordo-liberal tradition that seeks to marry a strong state with a commitment to maintaining economic order within a competitive market economy. In particular, as I have argued elsewhere (Jayasuriya 1999, 2000), this is consistent with an understanding of economic and social intervention as a way of 'constitutionalising economic processes. Economic constitutionalism refers to the attempt to treat the market as a constitutional order with its own rules, procedures, and institutions operating to protect the market order from political interference. These liberal threads are examined through an exploration of the social market traditions of ordo-liberalism especially, the argument that social conduct needs to be market conforming.

The other notion that drives new welfare governance is the desire to improve the economic independence of individuals by enhancing the asset holdings of the poor and the socially disadvantaged. In this particular strand of the new welfare governance greater inclusion within the economic mainstream is to be accomplished through policies that enhance the capacities and endowment of individuals to compete within a globalized economy. These ideas are explored through an analysis of the British New Liberal tradition, whose members include theorists such as Hobhouse and Hobson. These ideas are similar to the economic constitutionalism of the ordo-liberals in that they locate welfare within the ontology of the market order. But in these versions liberal subjects are placed within a moralized or 'ethical' market economy.

Ordo-liberalism, social market and market-conforming conduct

The driving idea of the ordo-liberal tradition is that the construction of economic order cannot be left to the spontaneous actions of the market, and needs to be created through a consistent order-based policy (*ordnungspolitik*) of the state (Peacock and Willgerodt 1989). For the ordo-liberals the 'various economic, political, legal, and other social processes are interrelated. Each act of government intervention must therefore be seen in connection with the total processes and overall economic order so as to ensure the 'system conformity of measures' (Petersmann 1991: 63). Accordingly, the state should not attempt to conduct the economy; rather, it should provide a system of juridical institutions that would facilitate the construction of the market.

Hence the central characteristic of this 'economic constitutionalism' is the attempt to insulate social and economic institutions from the assumed debilitating effects of political bargaining (Jayasuriya 1999, 2001a), so much so that the

> economic constitution distinguishes between those actions that are consistent with the economic freedom-based logic of that choice and those that are not. The former represents "conforming" conduct; the latter is politically based regulatory discretion. Economic constitutionalism thus represents a cognitive map or template for evaluating governmental action. (Gerber 1994: 17)

But the point here is that this economic constitutionalism, as Gerber observes, encompasses much more than a shift towards a rule-based, rather discretionary economic policy; it is equally concerned with enabling 'conforming conduct' within the sphere of civil society. From this perspective, economic constitutionalism seeks to institute processes and structures of governance that activate modes of conduct appropriate to a competitive market economy.

Running through the ordo-liberal movement, it is possible to discern a distinctive political dimension to economic constitutionalism. In essence the ordo-liberals develop a political conception of market order where institutions are designed to protect it from the corrosive influence of politics; it is a politics of anti-politics. Those concerned about the anti-competitive effects of society on the economy, such as Eucken (1950), argued that by the end of the nineteenth century the state was increasingly captured by private interest groups leading to the politicization of the economy, which in turn, weakened the state. Economic constitutionalism was not merely designed to protect 'economic institutions of

the market from 'political interference', but also to facilitate the creation of the kind of social order that is consistent with the market economy. What is crucial here is the fact that the purpose of the state is defined in terms of pursuing the ends of economic order that are articulated within a language of liberalism that is itself is counterpoised to the pluralism of social interests.

The economic constitutionalism of the kind promoted here has two important features: first, it sees markets as a product of state or political intervention; in this view, properly functioning and effective markets require systematic state intervention. This view of state intervention is a significant departure from those public choice conceptions of state intervention – so influential in the early development of neo liberalism – that reduce any form of state intervention in the market place to unhealthy predatory impulses. The ordo-liberal tradition of capitalism was conceptualized as a system that was intrinsically juridical in form and therefore government or statecraft in our terminology must seek to consciously provide economic order and security (Lemke 2001).[4] The difference here is that for the ordo-liberals a strong state is essential for the protection and furthering of the market forms. To use Oakeshott's (1975) terminology, the state becomes an enterprise association whose purpose it is to promote economic order.

But economic order goes beyond the governance of economic institutions; it also seeks to regulate those elements in society that are deemed to be uncompetitive. For the ordo-liberals, society itself can become an obstacle to an efficient and competitive market, so much so that it becomes an object of governance, particularly to those economic institutions that are considered vital for maintenance of economic order. Economic constitutionalism as envisaged in ordo-liberal accounts encompasses much more than a move towards a rule-based economic policy; it is equally concerned with enabling 'conforming conduct' within the sphere of civil society. What this amounts to is that social order is inextricably tied to the reproduction of economic order. Programmes that seek to maintain economic order then must seek to institute processes and structures of governance that activate modes of entrepreneurial conduct appropriate to an efficient market economy. Not only does the state become an 'enterprise association' but society itself is seen as a site that can further entrepreneurial forms of action.

However, we need to bear in mind that this justified state intervention only to the extent that it promoted and furthered market and economic order. As a result, various innovative institutional schemes to enable greater individual participation within the economic sphere become

tethered to a broader pattern of economic constitutionalism. Accordingly, social policy becomes an integral element in the management of an efficient economic programme. What is critical here is that social policy was directed towards 'lessening the anti-social consequences of competition, it had to block the anti-competitive mechanisms which society can spawn' (Lemke 2001: 195). Welfare within this tradition of economic constitutionalism was not compensatory but was perceived largely as an instrument of economic reform to create a more competitive and entrepreneurial forms of conduct within social institutions.

These notions of economic and social order that came to be embodied in the notion of the social market economy formed an important aspect of ordo-liberal thinking. Importantly, for our purposes what this does is to point towards a neo-liberal version of welfare that can be clearly distinguished from earlier formulations of social citizenship, and justifies state intervention in the social realm only to the extent that it promotes those entrepreneurial forms considered to be vital for the effective functioning of the market economy. The economy and society, though seen as separate realms, only serve to reinforce the fundamentals of the economic order of society; hence social intervention can be justified if it has a substantial impact on the reproduction of economic order.

The origin of the term the 'social market economy' is to be found in the work of Alfred Muller-Armack (1966) who was associated with the Freiburg School.[5] His contribution to ordo-liberalism was to expand the legalistic focus of the ordo-liberal programme to encompass a range of social measures that were thought to be essential to the maintenance of economic order. Not surprisingly, some of these social market ideas proved to be an especially important element in the formation of the post war German economy. As Joerges and Rödl point out:

> The political function of the term "social market economy" was basically to present an alternative to the socialist or at least interventionist ("mixed economy") spirit of the era dominating public opinion and the conforming to the practical predominance of planning elements in Germany's economy during the occupation period. (Joerges and Rödl 2004: 15)

But what is a social market economy? Muller-Armack discussed a number of ways in which the market and societal spheres mutually reinforced each other (Joerges and Rödl 2004). The first was through the mutually beneficial social effects of the market through lower prices or the range of products available in the market. However, societal intervention

was justified to the extent that it performed two functions which we might call an *order* and *legitimacy* function. Muller-Armack (1966) argues for those policies such as full employment which serve to maintain whatever social order that was considered essential to market order. But more interesting was his expansion of the notion of the social market economy. It was seen as an

> … understanding of societal problems underlay his concerns about the stable pertinence of liberal society under – as he perceived them – 'modern' conditions. The most threatening factors were 'mass society' as a whole and its general tendency towards proletarinisation, as well as specific institutions of mass society, namely large business concerns and mass organization. (Joerges and Rödl 2004: 17)

However, considering that in the social market model, societal institutions were seen as being subordinate to the demands of economic order, did not necessarily rule out extensive intervention in the social sphere. Rather, it implicitly embodied the 'anti-pluralist' liberalism of economic constitutionalism by seeking to mould societal interest to the values of the market order. In fact, the very pluralism of politics was seen to be a potential source of anti-competitive values and behaviour. Therefore social interests and conflict were seen to be fundamentally at odds with the institutions of economic order (Joerges and Rödl 2004). In this sense, the social market economy, at least as conceptualized by the ordo-liberals, has markedly anti-pluralist and authoritarian elements. Market citizenship embodies some of these anti-pluralist elements and it is in this language of liberalism that we can identify a major dividing line between the new welfare governance and the social constitutionalism of the post war period.

From this vantage the different formulations of the third way can be seen as constituting the basis for a new framework of the social question. This is one that seeks to justify public intervention in the social order in terms of the imperative of the market order itself. Pivotal to this approach to social policy is the 'legitimacy function' that Muller-Armack identified with the social market economy. Of course, the kinds of legitimacy issues that he faced in postwar Germany were quite different from those faced by present-day neo-liberal modes of statecraft such as those associated with the third way. Third way programmes are more likely to seek to focus on issues of legitimacy through the active promotion of entrepreneurial forms of action and institutions. Similarly many transnational social policy programmes – such as social funds and micro

credit policies – are directed towards the promotion of legitimacy through entrepreneurial activity. This is a point well made in Weber's (2001) perceptive paper on the global development architecture and micro credit strategies where she analyses the role of social safety as mechanisms of political crisis management. Therefore, building on notions such as social capital or community empowerment, social programmes have had the effect of turning unemployment from a social issue or a social problem to one of 'social conduct' while at the same time dealing with the issues of legitimacy created by policies of market reform.

A further striking convergence between the ordo-liberals and this new social policy ethos is that that both tend to exemplify a kind of institutionalism that views the capitalist economy not as a set of social relations but as an ensemble of institutions.[6] In this way, social institutions – and by implication the welfare system – are shaped by the imperatives of capitalist economic order. But this social policy orientation and statecraft such as those associated with the third way are similarly directed at enabling those institutional forms of capitalism that are thought to be essential for the reproduction of market order. Clearly, the new welfare governance places great store on developing partnerships between civil society and the state in the pursuance of various social projects. So, for example, the poverty reduction strategy of the World Bank seeks to further what it calls 'pro-poor' strategies by encouraging individuals and groups to participate in the formulation of social policies strategies and programmes.

Similarly, Bevir (2003) notes that many New Labour policies in the UK seek to implement a broad range of governance programmes which assume an institutionalist understanding of networks and partnerships to activate 'stable relationships characterized by trust, social participation, voluntary associations, and friendship, at least as much as from markets and competition' (Bevir 2003: 459). But what is missing in Bevir's account is that this new governance privileges certain forms of social association and community primarily by marginalizing the conflicts of class and social relations and serves to reinforce the anti-pluralism of economic constitutionalism. And to the extent that it succeeds in this form of statecraft it manages to depoliticize social and economic governance.

New Liberalism, property and liberal subjects

Whereas ordo-liberals seek to link markets and welfare by creating and strengthening social institutions to reflect market priorities, an earlier

British tradition of New Liberalism associated with theorists such as Hobhouse[7] (Hobhouse 1922), T. H. Green, and John Hobson sought to elaborate a utilitarian justification for welfare and economic efficiency. These theorists writing at the turn of the twentieth century sought to reconcile classical liberal ideas of individualism and economic freedom with mounting social problems of unemployment and poverty resulting from rapid industrialization. And they did this by developing notions of welfarism that were compatible with economic efficiency. Hobhouse in particular argued that public policy should be directed at removing those obstacles to individual self reliance. He recognised that this justified public intervention only insofar as it was deemed to be crucial for the operation of an efficient and legitimate market system. This justification of a role for government in protecting and securing what might be called the social requisites of the market economy was mainly made on the grounds that this would lead to higher levels of overall civic welfare.

In this regard a crucial policy for the New Liberals was broadening the ownership of property within community. Hence the 'right of an individual to hold property was an expression of his membership in the community and its justification was to be found in welfare and will of the community' (Freeden 1978: 220). Property ownership was an essential component of a liberal society, as theorists, such as Green, Hobhouse, Bosanquet, and Hobson argued. It permitted citizens to become full members of a liberal community. In other words, as Morrow (2001) notes, the assumption was that liberal subjects could exercise their full moral capacities only through the ownership of property. Unlike the libertarian notions, these ideas of property rights sought to emphasize the way possession of property was constitutive of liberal subjects with a stake in the community. For Hobhouse (1922: 155): 'property is the common basis of the freedom and self dependence, the possession of some property is desirable for individuals and, and for any corporate body that has to direct its own affair'. Property rights then – unlike for the libertarians – was a means towards creating the moral capacities of liberal individuals. One of the consequences of this was that New Liberals such as Hobhouse and Hobson were willing to justify an expansive range of intervention strategies 'for systems of state regulation that fostered efficiency, and promoted justice by ensuring that all members of population were able to posses the amount and type of property necessary for full membership of the community' (Morrow 2001: 108). What distinguishes this early-twentieth-century understanding of market citizenship is the way it relates the exercise of liberal capacities

to the possession of a share in the productive economy. New Liberalism transformed the notion of poverty from material 'misery and insufficient spending-power and into the realm of the negation of human status, participation, self control and opportunity' (Freeden 2004: 77). In this way the New Liberalism articulates a notion of market citizenship and welfare whose main elements sit at odds with the postwar social citizenship that is premised on redressing the inequalities produced by the market.

The relevance of New Liberal arguments for market citizenship lies in the fact that the New Liberals sought, as Vincent (2001) observes, to combine an ethical understanding of rights with a commitment to the liberal market. For these theorists property had a strong ethical component in that it provided an instrument for creating liberal subjects with the ethical capacities to contribute to the common good. In this way New Liberalism transformed the notion of poverty from material 'misery and insufficient spending-power and into the realm of the negation of human status, participation, self control and opportunity' (Freeden 2004: 77). Social intervention was then directed at producing these self-reliant and economically independent individuals, but was to be found within the realms of an ethical market order. What this view has in common with third way ideologies is the marriage of communitarianism with market ontology but this marriage is only possible by locating citizenship within the realms of an ethical market order. And this comes at the cost of displacing those competing social interests within the market that underpinned the pluralist politics of social constitutionalism. New Liberalism and the contemporary welfare governance converge around a language of liberalism that is hostile to the pluralism of social interests within the market economy.

These ethical imperatives were equally evident in the way the New Liberals sought to link market citizenship and welfare by grounding social rights in the form of reciprocal obligations. As Freeden (1978: 219) notes, for the New Liberals rights were 'a benefit conferred by society for mutual advantage of the recipient and the conceder. What they were not prepared to accept was the idea of an unconditional right, irrespective of whether it was feasible or merited – which was what an absolute right is' (Freeden 1978: 219). Economic constitutionalism in all its various modern incarnations is characterized by this valorization of social integration through policies that enhance participation and stakeholding in the economic sphere and the individual liability for reciprocal obligation in return for social claims on the state.

An echo of this New Liberal emphasis on broadening participation within the market can be found in programmes for social inclusion (which belong to the social market category) as well as in other programmes designed to enhance the endowment of individual assets – be it income, training or social capital – and also active participation within the market. Whereas social citizenship of the postwar period was directed towards income replacement, these market citizenship policies are directed towards strengthening individual assets in order to compete within a market economy. It follows that in contrast to social citizenship this view of citizenship not only decommodifies welfare – that is, social policy is individualized – but market imperatives are at the heart of the justification for welfare helping to create New Liberal subjects.

In this way recent social policy initiatives have turned towards the development of assets-based social policies as an 'integral part of an overall development strategy that seeks to raise incomes and standards of living for all' (Midgley 2003: 10). This attempt to situate asset-based policies within a framework of 'developmentalism' strongly echoes the New Liberal justification of welfare in term of greater economic independence. It points to the way in which citizenship is defined within the capitalist market economy in such a way that it precludes the pluralism of interests so vital to social constitutionalism.

Arguing along these lines, one of the main objectives of these assets-based policies is the broadening of asset ownership in the economic sphere. For example, Singapore Central Provident Fund (CPF) – a retirement insurance scheme – allows for individual accounts for health, education, and specified investments (Sherraden 1997; Low and Choon 2004). The CPF model, it will be recalled, had quite an influential bearing on early third way thinking on stakeholder economy.

More recently, asset-based ideas have been expressed through the concept of individual development accounts for the whole range of welfare and education needs. Be they stakeholding or individual development accounts, these asset-based programmes seek to individualize welfare in a way that contrasts sharply with the collectivist insurance model of the postwar welfare state. Equally illustrative of these property based policies in developing countries such as Thailand are the so-called 'asset conversion programmes' that encourage poor farmers or the urban poor without property rights to convert their assets into legal title (Jayasuriya and Hewison 2004). The assumption here is that the individuals will then be able to convert these property rights into an asset which can be used to more actively participate in the economy.

New Liberalism – as with the ordo-liberals – allows us to examine the normative foundations of market citizenship and welfare by underlining how the new social contracts, by seeking to inculcate individual self-reliance and responsibility, attempt to create New Liberal subjects. Individual self-reliance and economic independence – which was especially important in enhancing community membership – were to be achieved through the ownership and possession of property. It is the possession of property that serves to bind liberal subjects to the broader community and the common good. But this ideological hybrid of communitarianism and markets is only possible by locating liberal subjects within – as with the New Liberalism – an 'ethical' market economy. But this moralized economy diminishes the contestation of politics in favour of anti-political liberalism.

Conclusion: economic constitutionalism and anti-pluralistic liberalism

For both the New Liberals and the ordo-liberals alike, welfare was framed within the market; the bond between welfare and market order is clearly a defining feature of forms of market citizenship in economic constitutionalism. And the common thread that links both the ordo-liberals and the New Liberals is the fact that both seek to create liberal subjects whose capacities and purposes are shaped by the productive economy. In turn, an efficient market economy depends upon the creation of these liberal subjects. For the ordo-liberals, such 'liberal subjects' were created through societal institutions that would enchance the entrepreneurial capacities of individuals as well as furnishing the foundations for legitimate market order. For the New liberals such as Hobhouse the possession of property was a means of creating self-reliant individuals who would have a stake in the community. Both forms of liberalism have this in common with contemporary forms of welfare governance: they seek to create liberal subjects who are ethically embedded in the productive sphere of the economy. This is not to deny that there are important differences. For Hobhouse, and for other New Liberals like T.H. Green, market order was just one purpose of public action. By contrast, what is distinctive about the ordo-liberals – which creates a striking affinity between them and the new policy frameworks – is the overwhelming importance attached to the pursuit of market order.

An equally important theme that runs through these liberal traditions of market citizenship is a conception of welfare as a component of a

well-ordered and efficient market system. But the point at issue for both the New Liberals and the ordo-liberals is not social intervention per se but the type and form of intervention. Understanding welfare in this way – unlike early forms of neo-liberalism – makes a 'strong state' an important dimension of a properly functioning market system. Hence there has been a proliferation of programmes and policies of welfare governance – the new social policy ethos – that have sought to reshape the relationship between state and citizen in order to foster forms of market citizenship. These social entitlements may be quite generous and expansive. But that is not the point. What matters is the fact that these entitlements are justified in terms of their capacity to enable greater participation of individuals within the economic mainstream.

Market citizenship whether formulated in terms of the social market economy, the New Liberal idea of community, the World Bank, or the EU focus on social inclusion, justifies welfarism in terms of its capacity to create an inclusive society that places a high value on economic participation. This differs from the idea of welfare as compensation or redistribution that was such an influential element of the social democratic 'grammar' of politics that defined the postwar welfare state. This shift from an insurance paradigm – the collective indemnification of the risks of the market economy – to an understanding of social policy, and, more broadly, the social sphere, as the furthering or reinforcing of an inclusive and participatory market economy constitutes a significant transformation in the very language of liberalism.

But its most significant consequence is that social institutions and their governance are depoliticized in a way that limits the conflict and negotiation of social interests that formed such a crucial element of social constitutionalism. Sustaining this social constitutionalism was the politics of negotiation and conflict of social interests that, in turn, hinged on the dualism between the market and the social sphere. Welfare was at the heart of this often-conflictual and contradictory logic of the market and social solidarity. But it is this politics of social conflict, or, more broadly, a politics of interest that is absent in the new economic constitutionalism that has come to dominate both the industrialized and newly industrializing countries.

By reshaping welfare along productivist lines the new welfare governance creates liberal subjects who are defined not on the basis of membership of interest or class communities, but in terms of the possession and attributes of those endowments or capacities to participate and compete within the productive sphere of the economy. Moreover, the new welfare governance as well as the broader governance structure in

which these policy alternatives take shape, embodies a particular conception of politics as one of management and consensus. This serves to reinforce an anti-pluralist strand of liberalism that is at the core of the new market citizenship.

Neo-liberalism cannot be reduced to a set of policy prescriptions for economic liberalization and deregulation. In fact, as programmes of market reform were confronted with major challenges noticeable in an appreciable shift in thinking away from a predatory view of the state that characterized the initial move towards projects of neo-liberal reform in US and the UK as well as World Bank structural adjustment programmes. The more recent neo-liberal programmes, we argue, are more focused on developing new forms and practices of social and economic regulation. These new regulatory practices call for a more interventionist and activist state that would enable those forms of social conduct that promote market norms and practices.

Hence neo-liberalism is transformed into a political project that seeks to regulate the social in a way that is compatible with the market. Not surprisingly, the rationale of the social policy agenda currently promoted aims not at pushing back the state but rather at achieving some measure of internal transformation *within* the state. In this respect, neo-liberalism, as Peck and Tickell (2002) have suggested, needs to be seen as an ongoing process of economic and political change. They propose a useful dividing line between what they call 'rollback' and 'rollout' neo-liberalism. 'Rollback' neo-liberalism represents the early deregulationist thrust of Thatcher and Regan, while 'rollout' neo liberalism represents a new surge in the re-regulation of newly deregulated markets. The relevant point here is not that state intervention diminishes or is less marginal, but that this new economic constitutionalism is framed within a new language of liberalism that is inimical to the pluralist politics of interest that underpinned the social constitutionalism of the postwar era.

Notes

1 For a analysis of these ideas in the context of the development of a new post Washington Consensus See Jayasuriya and Rosser (2001).
2 Of course, Carodoso is a sociologist by training who was leader of the schools of dependent development. While some have suggested that he has broken from the dependency tradition, it should be noted that he likes to situate his project in terms of a broader modernization strategy. On this score at least he has some continuities with his earlier dependency work (see Powers 2001).
3 Though curiously he leaves out the tradition of New Liberalism in shaping the integrationist welfare tradition.

4 This was noted as Lemke notes by Foucault in his famous College de France lectures in 1979 (Lemke 2001; Burchell *et al*. 1991).
5 Though Joerges and Rödl (2004) point out that he was not in the inner circles of the Freiburg School, his chair was Cologne.
6 As Lemke (2001: 194) points out: 'The *historical* significance of this hypothesis is that it rejects a concept of history that attempts to derive socio-political changes from the economic transformation processes of capitalism'.
7 See White (2004) on Hobhouse and asset-based social policy.

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Index

Aboush, Mohammed 179
Abramovich, Roman 72–3
Africa 98–113
  clientelism 99–100, 108–12
  equivocations 111–12
  governance 107–8
  implementation 105–7
  neo-liberalism and governance 105–8
  patrimonialism 110–11
  sovereignty 100–3
  structural adjustment 99, 103–5
  success stories 108–12
  see also individual states
American Enterprise Institute 16
Angola 101
anti-globalization movement 146, 226–8
Asian crisis 139, 140, 141, 229
Asian Development Bank 91
Åslund, Anders 63
authoritarianism 201–5
  and transparency 211–14

Bank of Indonesia 87
Berezovsky, Boris 65, 72
Berry, Sara 102
big-government conservatism 165
Blair, Tony 170, 171, 220, 223, 224–5, 232
Bolton, John 183
Boot, Max 193
  The Savage Wars of Peace 176
Bork, Robert 183
bourgeois triumphalism 170
Bremer, Paul 176
Bretton Woods 227–8
Brittan, Samuel 23
budget deficits 164
Building Institutions for Markets 206
Bulog 88
Bush, George W. 13–14, 170, 171, 173–94
  see also US

Callinicos, Alex 229
Camdessus, Michel 207, 208
capitalism 13–14, 25–6, 160–2
  nomenklatura 121
  crony capitalism 178, 208
capitalist class 160
capitalist social democracy 159, 160–1
Chavez, Hugo 234
Cheney, Dick 164, 179–80, 183
Cheney, Lynn 179
Chernomyrdin, Viktor 61
Chicago Boys 41
Chile 39–57
  anti-politicism 48
  consumerism 49–51
  depoliticization 45–9
  disenchantment 54–5
  future of neo-liberalism 55–7
  Instituto Libertad y Desarrollo 48
  macroeconomic stability 49–51
  modernization of society 42–3
  neo-liberalism in 40–2
  political legitimacy 42–5, 49–51
  technocratization 51–4
China 114–31
  blind investment 124
  cadre kin 121
  Cultural Revolution 115
  decentralized socialism and fragmented proto-capitalisms 123–4
  domestic economy 117–19
  domestic-international nexus 124–6
  future prospects 128–30
  individual versus private ownership 118

China – *continued*
Ministry of Commerce 127
nan xun 118
party-state bourgeoisie 120–3
People's Bank of China 126–7
Special Economic Zones 124–5
State Development Planning Commission 126–7
state-owned enterprises 119
Third Plenum 117
Township and Village Enterprises 118, 120
transition from socialism 114–17
World Trade Organization entry 126–8
xiahai 121
zhuhou jingji 123
Chinese Communist Party 115–16
Christian fundamentalism 184–5
Chubais, Anatoly 8, 61, 62–3
citizenship 237–40
civil authority 159
class structure 159–60
classical liberalism 21
clientelism 99–100, 108–12
Coalition Provisional Authority 177
Coalition of Service Industries 210
Code of Good Practices on Fiscal Transparency 207
Code of Good Practices in Monetary and Financial Policies 207
Cold War 101
common sense politics 162, 169
community 240
conforming conduct 242–6
conservative populism 16
consumerism 49–51
Contingent Credit Line 149
Corporate Transparency Index 212
corruption, as development problem 82–6
cosmopolitan democracy 222–3
Côte d'Ivoire 109
Cox, Robert 33
crony capitalism 178, 208

Da Silva, Lula 234, 236
decentralization 81
China 123–4
Indonesia 89–94
Phillippines 92–3
Thailand 91–2
decline of neo-liberalism 125–56
democracy 29, 201–5
cosmopolitan 222–3
Democratic Republic of Congo 111
democratization 59–61
Deng Xiaoping 115, 118–19
depoliticization 45–9
disruptive strains 217, 230
Doha 226, 229
Dorn, James 202

economic conservatism 21
economic constitutionalism 234–53
economic liberalism 21, 197–215
electoral support 31
empire 14–15
Enron 17
equality of opportunity 239
Ethiopia 101
European Stability and Growth Pact 231
Evans, Peter 229

Foucault, Michel 101
free market 3, 4, 21
free market liberalism 21
Friedman, Milton 22, 218
future prospects 33–5

Gafur, Abdul 93
Gaidar, Yegor 61
Gamble, Andrew 162
Gardiner, Sam 180
GATS 143
Gerashchenko, Viktor 62
Ghana 101, 109
Giddens, Anthony 220
glasnost 58
global economy 26
global governance 223–6
Global Progress Commission 224
globalization 32
neo-conservatist view 166–9
neo-liberal 218–19
good governance 79, 83
Gorbachev, Mikhail 58

governance 107–8, 138, 168–9, 208–11
  good governance 79, 83
  global 223–6
Governance in a Global Society 226
government-linked companies 210–11
Gowan, Peter 157
Green, T.H. 247, 250
Gribben, David 179
gross domestic product 164
Gusinsky, Vladimir 72

Halliburton 179–80
Harrington, Michael 156
Harvey, David 157
Held, David 222
Herfkens, Eveline 232
Heritage Foundation 16, 114
hierarchies 158
Hirst, Paul 222
Hobson, John 247
Hong Kong 202
Huntington, Samuel 84
Hussein, Saddam 185–6
Hyde, Henry 187

ideology 3–5
Illiaronov, Andrei 72
IMF 22, 32, 43, 137, 201
  Africa 103–4
  Asian policy 139
  Indonesia 87
  US anti-IMF alliance 144–6
  US Treasury attitude to 147–9
implementation 105–7
inclusion 241
Indonesia 10, 11, 79–97
  Anti-Corruption Commission 95
  bribery 93
  corruption 82–6, 89–94
  current directions 94–7
  daerah tingkat I 91
  daerah tingkat II 91
  decentralization 89–94
  economic crisis and neo-liberalism 86–9
  electoral process 93–4
  kotamadya 90, 91
  Masyarakat Transparansi Indonesia 95
  money politics 93
  New Order 80, 81, 87
  regime change in 79–82
Indonesia Corruption Watch 95
Indonesian Bank Restructuring Agency 87
information 205–8
insider privatization 121
institutions-based approach 83
international financial institutions 136, 167
International Forum on Globalization 228
International Monetary Fund *see* IMF
Iraq 174, 176–82, 185
  Coalition Provisional Authority 177
  privatization 177

Jackson, Bruce 179
Jay, Peter 23
Jiang Zemin 128

Kalla Kalla, Jusuf 90
Karzai, Hamid 181
KBR 181
Kenya 109
Keynesianism 22–4, 26
Khodorkovsky, Mikhail 72
Kirchner, Nestor 234
Kirk, Russell, *The Conservative Mind* 187
Klein, Naomi 176
knowledge gaps 205
Kristol, William 183
Krueger, Anne 152

Laïdi, Zaki 223
laissez-faire strand 21–2, 31
Lal, Deepak 105
Lamy, Pascal 223
Latin America 39–57
Lavin, Joaquin 48
Lebedev, Platon 73
Li Peng 117
liberal authoritarianism 5
liberal conservatism 21

liberty 202–5
Lichtheim, George 23
limitation of state powers 29
low intensity democracy 5, 12
Lukes, Stephen 101
Luzhkov, Yurii 68, 69, 70

macroeconomic stability 49–51
Malaysia 10–11, 208–11
market citizenship 237–40, 248
market imperfection 205–8
market state 3–19, 74–6
  protection from politics 3–6
market-based approach 82–3
market-conforming 242–6
markets 160–2
  link to welfare 240–50
Masduki, Teten 95
Masyarakat Transparansi Indonesia 95
Mayer, Jane 180
Meltzer, Allen 201
Meltzer Report 149, 201
military imperialism 175–6
Mill, John Stuart, *On Liberty* 204
Millennium Challenge Account 201
Millennium Development Goals 226
monetarism 26
Mont Pelerin society 21
Mozambique 109
Muhammad, Fadel 93
Muller-Armack, Alfred 244
Myrdal, Gunnar 84

neo-conservatism 14–18, 156–72, 182–91
  critique of 187–8
  decline of 135–6
  economic vision 159
  and globalization 166–9
  ideology 158–62
  versus neo-liberalism 162–6
neo-liberal globalization 218–19
neo-liberal patrimonialism 8
neo-liberalism
  future of 152–4
  global agenda 221–6
  hijacking 7–12
  splits within 12–18
  transplantation of 6
  versus neo-conservatism 162–6
neo-paternalism 165
new forms of statecraft 7
New International Financial Architecture 149–52
New Liberalism 246–50
new mixed economy 220
new public management 5
New Right 162
new welfare governance 234–53
Nigeria 109
Nivzlin, Leonid 73
nomenklatura capitalism 121
non-governmental organizations 148
North, Douglass 4

oil 185–6
oligarchy 65–8
Olin, John Merrill 183
O'Neil, Paul 201
open door imperialism 189
Open Singapore Centre 213
ordo-liberalism 242–6

Partnership for Government Reform 94
patrimonial oligarchy 8, 9
patrimonialism 110–11
Phillippines 81, 85
  decentralization 92–3
Pinochet, Augusto 43–4, 45–7
Polanyi, Karl 33
Political and Economic Risk Consultancy 86
political legitimacy 42–5, 49–51
political liberalism 197–215
political-ideological level 222–3
populism 5–6, 74–6
post-Washington Consensus 135, 136–41, 199
Potanin, Vladimir 65, 66
Preble, Christopher 188
privatization
  China 120–3
  insider 121
  Iraq 177
  Russian Federation 59–61
  silent 110

programmatic level 223–6
Project for the New American Century 183
Pronk, Jan 232
property ownership 246–50
proto-capitalism 123–4
public spending 164–5
Puteh, Abdullah 95
Putin, Vladimir 70–2

quasi-markets 165

Rasmussen, Poul Nyrup 216, 225
Reagan, Ronald 3, 4, 31–2, 159
religion, influence on US politics 184–5
Roberts, Pat 188
Robison, Richard 35
Roosevelt, Teddy 166
Ruger, William 187
Rumsfeld, Donald 183
Russian Federation 58–78
  Benefits Bill 76
  Edinaya Rossiya 75
  Edinstvo 70
  Goskomimushchestvo 61
  gosudarstvennik 71
  khozhyaystvennik 68, 69
  khozhyaystvo 69
  Komsomol 60
  krisha 61
  oligarchy 65–8
  populism 74–6
  prikhvatka 63
  prokuratura 60
  razgosudarstvlenie 62
  restoration of state 68–73
  rise of private interest 59–61
  Rodina 75
  technocratization 61–5
Rüstow, Alexander 21

Sachs, Jeffrey 63
Scherer, Michael 178
Schröder, Gerhard 223, 224–5, 232
Schulte-Nordholt, Henk 88
Schulte-Nordholt, Nico 89
Seattle 146
security 166
self-interest 28
shock therapy 7, 8
silent privatization 110
Singapore 203, 208–11
  Corporate Transparency Index 212
  Open Singapore Centre 213
  People's Action Party 209
  Political Donations Act 213
Singapore Central Provident Fund 249
social capital 240
social citizenship 236
social conflict 158
social contracts 5–6
social democracy
  in Europe 216–33
  limits of future influence 228–33
  neo-liberal global agenda 221–6
  reform agenda 226–8
  return of 219–21
social inequality 158, 159–60
social market 21–2, 242–6
social market economy 244–5
social neo-liberalism 5
Soeharto (ex-president of Indonesia) 79, 80, 84–5
Southeast Asia 79–97
Sovereign Debt Restructuring Mechanism 151
sovereignty 100–3
Special Data Dissemination Standard 207
state
  limitation of powers 29
  role of 163, 170–1
  size of 29–30
  strength of 163
state reform 28
state spending 30
Stiglitz, Joseph 200, 218
Strange, Susan 230
structural adjustment 99, 103–5
Subrananiam, Shivan 190
Summers, Larry 150, 151, 201

Tanzania 109
techno-managerial state 3–5
technocratization
  Chile 51–4
  Russian Federation 61–5

Thailand 81, 85
  decentralization 91–2
Thatcher government 29–30
Thatcher, Margaret 3, 4, 31–2, 159
The Progressive Manifesto 222–3
third way 219–21
Thompson, Grahame 222
trade unions 27
transparency 197–215
  and authoritarian rule 211–14
Transparency International 86, 87
true believers 12–18

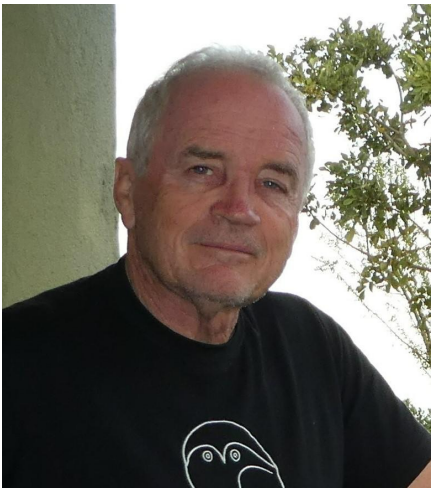
Uganda 109, 110–11
United States–Singapore Free Trade Agreement 210
US
  anti-globalization movement 146
  financial services liberalization 143
  1998 funding debate 144–6
  Homeland Security Act 15
  and IMF 142–4
  influence of religion 184–5
  neo-conservatism 182–91
  Patriot Act 166
  primacy 17
  Project for the New American Century 183
  Treasury attitude to IMF 147–9
  War on Terrorism 175–82
  see also Bush, George W.

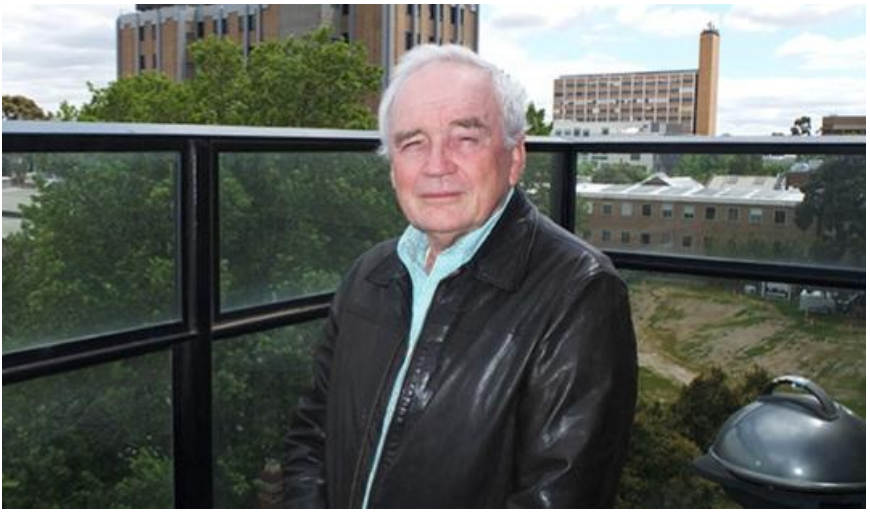
von Hayek, Friedrich 23, 139–40, 160, 203, 218
von Mises, Ludwig 23

wahhabism 166
Walker, David 178
Walters, Alan 22
War on Terrorism 175–82
Washington Consensus 32, 135, 136–41, 199
  aftershock 141–7
welfare state 27
Williams, William Appleman 189
Wilson, Woodrow 166
Wolfowitz, Paul 157, 181, 183, 200
World Bank 22, 32, 94, 137, 201
  Accelerated Development in Sub Saharan Africa: an Agenda to Action 103
  Africa 103–4, 106, 111–12
  anti-corruption strategy 83–4
  Knowledge for Development 205–6
  Reforms Results and the Road Ahead 104
  support of Soeharto regime 81, 84
World Trade Organization 33, 143, 168, 216
  China 126–8
World.Com 17

Yeltsin, Boris 61, 70

Zaire 101
Zakaria, Fareed 190–1
Zambia 109
Zaoh Ziyang 117
Zhu Rongji 119, 127–8
Zimbabwe 109
Ziuganov, Gennadi 65





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